LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

13th Assembly

PUBLIC ACCOUNTS COMMITTEE

Public Hearing Transcript

Tuesday 5 May 2020

Litchfield Room

Members: Mrs Kate Worden MLA, Chair, Member for Sanderson
Mr Gerry Wood MLA, Member for Nelson
Mr Terry Mills MLA, Deputy Chair, Member for Blain
Mr Tony Sievers MLA, Member for Brennan
Mr Gary Higgins MLA, Member for Daly (via videoconference)

Witnesses:

Australian Competition and Consumer Commission
Mr Matthew Schroder, General Manager, Infrastructure and Transport – Access and Pricing
Mr Gary Dobinson, Director, Fuel Prices and Market Analysis

Automobile Association of the Northern Territory
Mr Anthony Hill, Chief Executive Officer
Mr Edon Bell, Senior Manager – Operations

Puma Energy Australia
Mr Steve Niebling, Fuel Pricing Manager
Mr Alan Plews, General Manager – Retail
Mr Mark McKenzie, Chief Executive Officer, Australasian Convenience and Petroleum Marketers Association

United Petroleum PTY LTD
Mr David Szymczak, Chief Operating Officer

Viva Energy
Ms Megan Foster, Executive General Manager, Consumer
Ms Edwina Pribyl, Head of External Communications

FuelXpress
Mr Mark McKenzie, Chief Executive Officer, Australasian Convenience and Petroleum Marketers Association

Vopak
Mr Mark Haggerty, Commercial and Business Development Manager
Mr Fulco van Geuns, Managing Director
Mr Paul Birch, Terminal Manager, Darwin

Caltex Australia
Mr Prasad Kholkute, Head of Retail Pricing
Mr Todd Loydell, Head of Government Affairs

The committee convened at 9.00 am.

PUBLIC HEARING ON NORTHERN TERRITORY FUEL PRICES

Australian Competition and Consumer Commission

Madam CHAIR: On behalf of the committee I welcome everyone to this public hearing into Northern Territory fuel prices. I welcome to the table to give evidence to the committee Mr Matthew Schroder, General Manager, Infrastructure and Transport - Access and Pricing from the Australian Competition and Consumer Commission.

Matthew, is it just you there, or is Mr Gary Dobinson with you as well?

Mr SCHRODER: Mr Dobinson is not with me physically, but he should be on the line. Gary, are you there?

Mr DOBINSON: I am. I have just entered the meeting.

Madam CHAIR: Also from the Australian Competition and Consumer Commission we have Mr Gary Dobinson, Director, Fuel Prices and Market Analysis.

Thank you for coming before the committee this morning. We appreciate you taking the time to speak to us and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

For the record, could you please each state your name and the capacity in which you are appearing.
Mr Schroder.

Mr SCHRODER: Matthew Schroder. I am General Manager of Infrastructure and Transport- Access and Pricing at the ACCC.

Mr DOBINSON: Gary Dobinson. I am the Director of the Fuel Prices and Market Analysis section of the ITAP branch in the ACCC.

Madam CHAIR: Thank you. Mr Schroder, would you like to make a brief opening statement?

Mr SCHRODER: Yes, I would, thank you. Firstly, thank you very much for the opportunity to speak to the committee. We would love to be back up in your beautiful Territory. Unfortunately, given the circumstances, we cannot be there, so apologies for that and if the sound quality is not fantastic please let me know if I need to repeat anything. We would like to help the committee any way we can. I will mention a couple of things quickly before opening to questions.

On the role of the ACCC, as most of you would be aware the ACCC does not set fuel prices. We do not have the power to set fuel prices. We do not set prices in other markets either, for that matter, except when they are a monopoly.

High prices, in the absence of breaches of our Act—for example, collusion or price fixing—are not, of themselves, illegal. High fuel prices—petrol, diesel, et cetera—are not, of themselves, illegal.

The ACCC's role is to monitor the market, to provide information to the industry and consumers on where prices are, what has been driving prices. Obviously, if we find evidence of anti-competitive behaviour which is in breach of our Act we take it very seriously and go to the courts, but we need evidence for that.

We have found, through our analysis—and the ACCC has been reporting on fuel prices for many years, including in Darwin, Alice Springs, Katherine and Tennant Creek. We also did a deep inquiry into the fuel prices in Darwin a few years ago, as you may be aware. We found that there were, basically four factors that determined variations in prices. Those four factors were the level of local competition, the volume of the fuel sold, distance and location factors and the amount of convenience store sales.

I would be happy to go into those further but those were the main determining factors. They were also the determining factors when we did the review of Darwin. They are the main determinates of prices.

The reason prices can come down more slowly than the prices of international fuel and the prices of wholesale fuel are due to lags in the system. Where retail sites have not received new fuel and they still have fuel bought at the higher price, they would make a loss if they sold at those lower prices.

I think that is pertinent at the moment because volumes of diesel and even more so, regular unleaded or lower aromatic fuel—petrol basically—have collapsed because of the recent social isolation policies as well as there being less opportunities to go to hotels or on camping trips and the like in a number of jurisdictions, including the Territory. The lags have been longer than they usually would be and we have been seeing them in other jurisdictions as well as the Territory. That has led to there being some lags.

Having said all that, it is the view of the ACCC that the prices in the Territory have been higher than we would expect them to be, based on the wholesale prices and what we generally use are terminal gate prices which are a nominal price of fuel that if you turned up at the refinery or the import terminal that would be the sort of price you could get. It is not a real price in a sense. But we have done analysis before and it is a reasonable proxy for the wholesale prices that companies are paying and so based on those sort of wholesale prices we do think that Territory prices have been at the moment, lately, higher than they should be.

Our Chairman, Rod Sims, has called out higher prices. We do need to take into account that these are businesses that need to remain profitable and, as I said, volumes are down so that has an impact on it. Non-fuel sales are down as well so that has an impact. We do expect those prices to come down. There have been reductions in prices in all the major cities we have looked at, but we think that the prices still have some way to come down.

I might just stop there and then just see if Gary has anything he would want to add and then we will open it up for your questions, thank you.

Mr DOBINSON: Thanks, Matt. The only thing I would probably stress is it is important to recognise that not all retail sites are the same and that they often have different operating structures and financial objectives which can often influence the way they set their prices.

Madam CHAIR: We have been made aware of those different operating structures, thank you, that is a very good point. Tony, do you have a question?

Mr SIEVERS: Can the ACCC explain to us how the fuel comes in to Australia and does it actually come straight to Darwin or does it go around to Western Australia and then come to Darwin? What is the process there?

Mr DOBINSON: I think our understanding is that generally it comes in to, some comes in to Darwin directly and some comes to Darwin from Perth. When we undertook the study of the Darwin market in 2015, we noticed that the freight costs for Darwin were less than some of the other capital cities but that was offset by higher terminal gate costs. So, the concept that we use to price petrol in Australia—the companies do as well—is the concept called import parity price. That import parity price is essentially the same in Darwin as it was with Adelaide, which is the city that we compared Darwin with.

Mr SIEVERS: Right.

Mr SCHRODER: If I can just add to Gary’s comments. My understanding is that you are speaking to Vopak this morning, which operates the main terminal in Darwin. They will be able to give you a pretty good understanding of the share of total product that comes predominantly from Singapore I would suspect on most months, and again, what comes around from the Kwinana Refinery in Perth.

I also add that there is a little bit of fuel that has come up to Alice Springs from the south which is trucked up as well.

But it is predominantly coming through that Vopak facility in Darwin, a combination of some domestic production and some direct imports.

Mr SIEVERS: Right. Over the last two months, the gross indicative retail difference—or the GIRD—for unleaded in Darwin has gone from five cents to 35c, and in Alice Springs, it has gone from 53c to 93c. What appears to be the causes of Darwin GIRD increasing by 30c and the Alice Springs GIRD increasing by 40c?

Mr SCHRODER: Well, predominantly, two things. One, when Darwin GIRDs—basically the difference between the terminal gate price and the retail price. I have to say, that is not all profit. That includes cost as well. The blow-out in that from three to four cents up to 30c to 40c in Darwin, for example—the GIRDs in December or January were very low, historically, by Darwin standards. They were probably lower than one would expect but, that said, there has been a very significant increase in them and, as you say, an even more significant increase in Alice Springs, and similar increases in Tennant Creek and Katherine, for that matter.

Largely, that is the falling of international prices, which is then fed through fairly quickly into wholesale prices. Terminal gate prices are based on a formula which takes into account international refined fuel prices, and the retail prices have not come down as rapidly. We have seen some reduction in those prices. We expect there to be more reduction in those prices. Some of that is accounted for by the fact that it takes retailers some time before they exhaust the fuel that they bought at the previous high price and, at the moment, even more so with less travel going on.

Again, we expect that those will come down. We have seen in all jurisdictions across Australia and over many years that when international prices go down, GIRDs go up and can go up significantly, and tend to go down when international prices are going up. So, there are those lags. They happen in all jurisdictions. We just think that the lags are larger—certainly, the reduction in international prices is extremely rare, if not unprecedented—but also we think that there has probably been a retention of margins beyond what would be justified by normal lags.

Madam CHAIR: I might just follow on a bit from that, because I think that one of the issues ahead of us today is about transparency of pricing. You mentioned earlier about volume collapse, and obviously, the Northern Territory would not be unique in that; it would be all over. For COVID-19, do you have a sense at all of the percentage of that volume collapse, perhaps even in somewhere like Darwin? Or perhaps the Territory?

Mr SCHRODER: I do not know for Darwin or the Territory. We do not have up-to-date volume data at the moment, but we heard anecdotally that volumes have been down by half in some areas. Diesel demand is slightly more resilient given the nature of it in terms of joint use between business and pleasure. I think some retailers would be down by, say, 30% to 50% on diesel and maybe half on petrol but it would depend on the retailer and the nature of their business. If they have more commercial business, those businesses are not as affected; there are a lot of deliveries and things happening. For others where their customers are discretionary families driving around, there has not been much of that now. I do not have specific figures but it is significant from what we are hearing.

Madam CHAIR: Following that line, though, it is the transparency line I am a bit concerned about because you spoke about different operating structures and the volume of collapse, which is not very known. Perhaps they are keeping prices high to offset, which I am not sure is entirely fair—perhaps a fall in convenience store sales or something like that. Where would the line be drawn for the ACCC distinguishing between profits and profiteering?

Mr SCHRODER: There is no legislation that prevents high prices. This is a capitalist economy and retailers set the prices. There is no law that prevents them from doing that, so there is no defined line. What we can say is that the margins are significantly higher than they normally would be. We can call out where we think they are excessive but there is not a set value. What may be very profitable for some retailers—high volume retailers that are very efficient with corporate support—may be different to a small family retailer who has relatively low volume and is losing money even at the current gross indicative retail differences.
There is not a law that prevents—as you characterised it—profiteering. There is not a certain value, we just look at what is it compared to historically, and other jurisdictions of similar sizes.

Mr HIGGINS: You were talking about the price when the GIRD goes up and down—the prices do not seem to go down as fast as when it goes up. Is that an indication that these businesses are running more on a dollar value profit on the litre of fuel as opposed to a percentage? Has anyone ever looked at that? In other words, we might say, ‘Okay, the retailers might want to make 15%’, but 15% of $1 is 15c and $2 is 30c. When the price goes up, they can make a lot more profit, so is the fact that the differential when the price goes up is actually lower because they are still making the actual cents as opposed to a percentage?

Mr SCHRODER: That is probably right. I know you are speaking with some of the businesses and Mark McKenzie from ACAPMA who could speak to the business reality of what they are trying to do with their business. I have had my own businesses before and you are setting a return on your investments and trying to make a profit.

It is probably right that when they are making more volume, they need to make less profit per litre of fuel and when they are selling more convenience products, they do not need to make the same sort of margin on fuel. That is probably right.

The point I was making, though, was that when international prices change, there is a lag between when those will affect retail prices. When international prices go up, the retail prices go up with a lag, so the GIRDs tend to go down. In this case, in the last couple of months, the international prices have gone down—the retail price has lagged on the way down—so the GIRDs go up. That was the sort of phenomenon I was saying—but I think you are right to characterise that you would have a targeted return you were trying to make. If you are selling more fuel and non-fuel products as well, you could make less money per litre of fuel.

Mr HIGGINS: I asked that because I have been involved previously in the sale of fuel. The amount we sold was a lot less. Rather than a percentage return, I worked on a 5c a litre-type return, but it was more because of competition with places that were selling a hell of a lot more. You have answered the question, anyway.

Mr SIEVERS: Do you think in the current situation the lag time is longer than average in the Northern Territory?

Mr SCHRODER: Yes, I think that is probably true. Gary, do you want to talk about lags?

Mr DOBINSON: Sure. Lags vary according to different locations. When we have looked at lags in the past across a lot of cities and regional locations in Australia, they can range between one and six weeks. That is generally how long they can vary. I think it is true that in Darwin we would have expected prices to come down more quickly than they have.

We can categorise Darwin with the other smaller capitals, such as Canberra and Hobart. Darwin prices tend to be quite similar to those cities' prices. They do not have price cycles and are a lot steadier.

In regard to comparing those, Darwin has been a lot better than Hobart, which is very high at the moment. It is higher than Canberra, as they have come down a bit there. We would think that the lag has been a bit longer than normal, but there are, as Matt said, circumstances that may be influencing that, which is the issue with the fall-off from COVID-19.

The other element I will mention is the fact that over the last year, Darwin prices have been incredibly competitive. For the last five quarters, Darwin prices on average have been below those in the five capital cities. That is not something you would expect. It may be the case that the fact they were incredibly competitive for a period of time may also be influencing the speed of the lags.

Madam CHAIR: Very interesting.

Mr WOOD: I follow up from that question. You say our prices were below five of the capital cities for a while, then you said about competition, but they all had the same prices, from memory. There was not a lot of difference. Why do you think they would have gone below the capital cities if they were all holding the same price?

Even now, generally speaking, prices are on average $1.14 to $1.17 across the board in Darwin—there are some cheaper than that. But it still reflects that there is not a great variation between one fuel station and another. Do you have any reason why all of a sudden we would have been equal or below capital city prices?

Mr SCHRODER: There are a few explanations for that. One is that competition can bring prices down, but it can also prevent retailers from bringing the prices up. If you think that your competitors will remain at a lower price, then you are under pressure not to put your prices up, as was mentioned before. You run a business, you are looking at what your competitors are charging. So, competition can keep prices low even if there is a relatively small spread of prices.

Also, the entrance into the Darwin market of some new players with some fairly aggressive pricing strategies—FuelXpress at Winnellie comes to mind—that very often has prices a few cents below the rest in the market. I realise it is out near the airport. They have put pressure on the market. That was one of the things we noticed in the last few years since we did our Darwin report. When I have been in Darwin, I often go past the FuelXpress to check their price and then check some of the other prices. That site has had an effect.

The ACCC was very keen to see that the Northern Territory brought in MyFuel NT. We think that price transparency enables consumers to shop around. By shopping around they can put pressure on the market and reward some of the discounters—FuelXpress and others that are at the lower end of the market. If you know where the prices are in the market that again puts some pressure on prices not to go up. At the moment, you have a very unexpected massive decline in international prices, so we are really talking about the speed at which the prices are going down. Prices are going down in Darwin and other cities, it is just that they are not going down as fast as consumers may want.

Those factors—the new entrants, the price transparency and the level of competition in the market—meant that the prices in Darwin were very low. We were surprised by how low they were and for how long the prices in Darwin were low.

Mr WOOD: Thank you, Matthew. I was involved in the previous review into prices by the previous government. Certainly, prices were much higher at that time than elsewhere. This government has introduced, as you say, MyFuel. But for a small place like Darwin, which most people can get around in an hour, do you think having MyFuel information makes a lot of difference? When you look at the prices in Darwin, they are $1.17 more or less right across the northern suburbs into Darwin itself, with a couple of places around Palmerston and the rural area $1.14.

Whilst MyFuel might be good for a larger capital city where people can get competition, do you think it is of much use in a place that is as relatively small as Darwin?

Mr SCHRODER: Darwin still has competition. It has multiple brands, it has tens of sites. I think it is still of value. It often is the case that the lower prices are from the independents. Some of the websites and comparisons that were around were not as comprehensive as MyFuel NT is—not as contemporaneous. The consumer-sourced information often is a few days old, which does not really help you much. No, I think it has value in a city like Darwin. When you only have four petrol stations and they are on the four corners of the main crossing in town or two or three in a very small town, then there is not much value in the price transparency unless you are travelling through that town.

In Darwin it certainly adds value and it means that the people who are price-sensitive—and not all consumers are price-sensitive to fuel. It enables those people who are price-sensitive to see the prices around. Darwin is not as big as some of the big capital cities, but it has a number of different sites. You would not be going around to all of those.

The other thing it does as well is people are aware that a certain proportion of consumers are looking at those sites and so it may give them an incentive to sharpen their pencil and keep their prices a bit lower than they otherwise would.

Madam CHAIR: Thank you. I was going to wind it up and ask about whether we could seek some advice from sort of offline because otherwise we are going to run very late today, around control mechanisms? Is it a quick question?

Mr MILLS: Yes it is quick. Terry Mills here, Member for Blain. Just interested to know how the ACCC operates in this space. ACCC regarding fuel prices, are you just observing fuel prices in all the different markets at all times or are you called in to investigate and how does that occur?

Mr SCHRODER: Yes we are monitoring and reporting on fuel prices right across the country. Not in the very, very small towns. Gary would know the current numbers but I think it is between 150 and 200 towns and cities across Australia that we are monitoring on an ongoing basis and we have been directed by the government to do that and to report on that quarterly.

In addition to that, if there was evidence of anti-competitive behaviour and breach of our Act then we could undertake an investigation of that. That is, not that prices are high - as I mentioned before high prices of themselves are not against the law and there is nothing we can do about that - but if there was evidence of collusion or joint price setting or something, then yes we would be very interested in that and we could undertake an investigation.

What we are generally doing is looking at the prices of all the major cities and towns across Australia, to report on their pricing.

Mr MILLS: Thank you Matthew so if it appears that there is something going awry with the local market, would it be a state or territory government that would go to the Australian government and then ask you to investigate or does it go directly from a territory or state government to ACCC?

Mr SCHRODER: It can happen in a number of ways. If an individual business or an individual person or government considers that there is something that they think could potentially be illegal, in breach of our Act - again not just high prices but collusion or collective price setting or something like that, some anti-competitive practice - then they can report that directly to the ACCC through our Infocentreline. We get a number of reports on anti-competitive behaviour across the economy, not just in fuel obviously, then you can do that. Alternatively the governments can contact us as well.

Mr MILLS: Have you been approached by the NT Government regarding this market condition at the moment?

Mr SCHRODER: We have received correspondence from the Northern Territory department.

Mr MILLS: Okay, thank you.

Madam CHAIR: Mr Schroder and Mr Dobinson I did have a further question but we are running out of time here; around possible control mechanisms. Would it be possible to perhaps email you and get some of your views around possible price control mechanisms? Would that be okay?

Mr SCHRODER: Yes, we would be happy to speak with you offline.

Madam CHAIR: Terrific, I appreciate that, just in the interests of time. Thank you very much for coming for the PAC today and giving your evidence, thank you.

The committee suspended.

Automobile Association of the Northern Territory

Madam CHAIR: On behalf of the committee, I welcome you to this public inquiry into Northern Territory fuel prices. I welcome to the table to give evidence to the committee, Mr Anthony Hill, Chief Executive Officer of the Automobile Association of the Northern Territory—the AANT; and Mr Eden Bell, the Senior Manager of Operations, also of the AANT.

Thank you for coming before the committee this morning. We appreciate you taking the time to speak to us and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

Could you each please state your name and the capacity in which you appear, and Mr. Hill would you like to make a brief opening statement.

Mr HILL: Anthony Hill, Chief Executive Officer of the Automobile Association of the Northern Territory, AANT. Thank you for the opportunity this morning to be represented here today.

AANT attends this committee hearing on fuel prices as the peak motoring organisation in the Territory, representing over 20 000 members and Territory motorists. In doing so, I would like to declare an interest that we have, a strategic alliance, an agreement that exists between AANT and United Petroleum, providing AANT members in the Northern Territory with a six cents per litre discount on fuel.

Ahead of this committee hearing, AANT has reflected on the historical pricing issues that lead to the Northern Territory Government Fuel Summit 2014, and the subsequent ACCC *Report on the Darwin petrol market* in 2015.

A statement from the ACCC report included that increased transparency and promotion of effective competition was the way forward for the retail fuel market, recommending amongst other things in order to achieve this, it should include:

- *providing current retail prices to motorists, and*
- *promotion of effective new entrants into the market.*

The AANT was a strong advocate for the real time pricing, welcoming the introduction of the MyFuel NT website, providing retail pricing transparency and reporting to consumers. However, we are still concerned about the red-tape faced by new entrants to the market to promote more competition - a case in point being United Petroleum wanting to expand its retail sites in Alice Springs, however, has been blocked by local government for the past two years.

It is worth noting that the fuel market over the last 12 to 15 months has been relatively stable with margins above TGP in Darwin, on average, 5c per litre. This probably goes to the ACCC's previous point about the competitive market over the last 12 to 15 months.

Although higher in regional areas, and on a couple of occasions, in negative territory, as bad as the situation was back in 2014, the retail margins in Darwin have recently exceeded a peak high from that time with margins tipping over the 40c per litre mark in April.

Whilst it is recognised that we are currently in unprecedented times in regards to the impact that the COVID-19 is having on the economy, AANT is of the view that the record margins above TGP today are unjustified. This takes into consideration longer than normal lag periods, expected lower volumes, and in particular, we note a 34% drop in TGP since 1 March 2020; this compares to only a 13% drop in the retail price for the same eight-week period.

Whilst AANT is not privy to fuel volume data across the whole retail sector, we can draw on reasonable subset of our members accessing the fuel discount offer. We saw in March a 12% year-on-year drop in usage and litres sold. In March 2020, that fell to 30% for the month of April.

As an indicator of use of vehicles—this is only a representative sample in Darwin only, metro-road service volumes—we have just seen in April that our road service volumes are 25% down on the same time last year. So, it was probably not as high a drop as what we were expecting for the month of April.

In summary, while the fuel market pre COVID-19 was relatively stable, the recent turn of events highlight that a concentrated market with weaker competition compared to other capital cities resulted in the current margins remaining stubbornly high. We also recently ran a member survey for AANT in February and March. For one of our advocacy positions around affordability, the number one issue that our members wanted us to focus on in future was the cost of fuel.

Darwin, Hobart and Canberra are out of step with other capital city fuel pricings. Original comparisons highlight that similar markets to Darwin are able to pass on the savings (inaudible). I refer to a graph, which is a snapshot as of 30 April. Darwin’s average ULP price was 119.1c, Cairns was 105.4c—a 14c difference, Townsville was 101c and Mackay was just over $1. We do not see that the pricing currently across the NT is justified.

Mr WOOD: You have a relationship with United and some of those are franchises. Do you have any indication of whether those owners have any power over changing the price? I know United at Coolalinga has a price well-below everyone else, which may have something to do with setting up Pie Face. Do those people control the price?

Mr HILL: To be honest, from an advocacy position, we do not get involved with pricing even though we have a strategic alliance with United. As far as fuel price setting, it is really their business and we do not get involved.

Mr WOOD: So your agreement is with the company?

Mr HILL: That is correct.

Mr WOOD: You mentioned red tape. Do you know why United could not put a service station in Alice Springs?

Mr HILL: I am aware that they have two key sites on the Stuart Highway in Alice Springs and they purchased those sites. It is an ongoing battle and it is probably a question for United for the details. They had many attempts and it has even gone through the court system. To this day, they have no joy.

Mr WOOD: It was not planning—council do not control planning.

Mr HILL: That is right. If I can, I ask you to refer that to United.

Mr WOOD: It is surprising because if it is planned for that—it is normally not a problem.

Mr SIEVERS: We heard from the ACCC about lag times. There are definitely issues with lag times in the Territory but what about the uptake? What is your view on the uptake? When the discounts come through, are they as quick on the other end of the scale?

Mr HILL: So is plotting increasing?

Mr SIEVERS: Yes, increasing on the uptake.

Mr BELL: Whilst we have a level of data available to us, the level of detail that would go probably needs to be fielded with the ACCC in terms of specific time frames with lead and lag. Typically, you would expect a couple of weeks to allow for that lag time. We are well-exceeding that time frame now. Anthony highlighted a 30% drop compared to the level of drop that occurred at the wholesale level. I do not think lag time—we well-exceeded the expected time frame, even taking into consideration any fall in volume.

We do not have that data available to us, but indicators say potentially around 30% just from the sample set we have. Even if you add that to a typical time frame—reflecting back on the issues that came about in 2014, what we have going on there was a ratcheting. It was a quick response to the increase in terminal gate pricing, but there was a failure to return.

That was a very different situation and issues occurring at that point. We saw the margin widen significantly. Interestingly, we have seen a peak of over 40c in the Territory, and in Darwin particularly, which exceeded even the highest point that we had on record back in that time.

Mr SIEVERS: Following on from that, when you notice these issues do you report them to the ACCC as well?

Mr BELL: We do not necessarily report. I dare say the ACCC would be well aware of that information. It is readily available.

The fact we now have the MyFuel NT website—it provides a very good level of detail to the consumer, which we have always strongly advocated. There are some reporting issues within that site which need to be looked at. They are only minor issues—an example is, say, Alice Springs. If you utilise the data, Alice Springs incorporates the broader region, and we feel that the Alice Springs township should be separated to give a true indication of what is happening.

When you take in the single sites in more remote regions, it affects what the reporting might look like. Separating out Alice Springs from a reporting point of view for better visibility—overall, our members have indicated that it is a valuable site. Having that low pricing is critical.

Madam CHAIR: I might ask a question on competition. Whilst we might have the ACCC—you have talked about competition as being necessary as one of the four levers in the marketplace for pricing. However, I have heard anecdotally we might have an oversupply of retailers, particularly in Darwin. That would mean that if we have more and more petrol stations—I understand the need for competition—each one would therefore sell less fuel.
Do you have any views on how we might get that balance right? Do you think we have an over or undersupply of retailers, particularly in the Top End?

Mr HILL: One of the key points from the ACCC report was that competition will drive the pricing to be more competitive. From all indications in the data we have collected over the past 12 to 18 months, it has been extremely competitive. I do not think that is necessarily an issue.

Madam CHAIR: You do not think there is an oversupply?

Mr HILL: No.

Madam CHAIR: Do you agree that if we keep having more and more, then each retailer will sell less and less and there is then potential that it could push the prices up?

Mr HILL: Not necessarily, no. I can only go on the data and talk about what has happened in the last 12 to 18 months. We have seen a very competitive market in Darwin. Alice Springs is a different story. It is a different market and there are competition issues in Alice Springs in that there is not enough. We need to drive that further. When you see the pricing in Alice Springs compared to Darwin, it is a lot higher.

Mr MILLS: Thank you for your contributions. I noted that you closed your contribution by saying that the fuel prices are currently unjustified. I note that Mr Bell said that a report has not been made to the ACCC. If you judge that they are unjustified, who do you report to and what mechanisms are available to you to raise the concern of unjustified pricing in the marketplace?

Mr BELL: We are a member-based organisation, so we answer to our members. Generally our members make it very clear or inform us when they believe there is an issue. We are advocates, and we are active in the media. We have not formally gone to the ACCC. As the ACCC highlighted, there are no regulations in respect of the pricing. At the end of the day, the consumer is an active participant in this in driving—if you have lazy consumers out there and they are rusted on in respect of ‘That is the site I go to, I do not care what the price is’.

I note that whilst it might typically seem like a consistent value across the board, if you look at the pricing today there is actually quite a variance between the lowest point and the highest point if you are prepared to actively seek to shop for the best price on the day.

We are consistently in the market saying, ‘Get out there’. If everyone shopped for the best price on the day we would not be sitting here having this discussion today, I suspect, because that is a significant role the consumer plays in driving pricing at the end of the day. An example, as Mr Wood highlighted, is $1.09 at Coolalinga has been there for probably about two weeks now, which is probably four cents or five cents under. Taking into consideration other pricing discounts are available to consumers, that makes a difference.

Interestingly, whilst United has led with a price point, no one else seems to have followed. So, to me that indicates that consumers maybe are not—or partly it might be that there is less volume. We acknowledge that the COVID-19 situation has reduced volume but probably not to the level that we would expect to see the margins sitting which specifically say are justified. That margin does not seem to add up when all things considered. Something is certainly not right. Comparing Cairns and other jurisdictions, we should and would expect to see the pricing lower. They are falling, but very slowly. As to what the underlying reason is specifically, it is unclear.

Mr WOOD: On the competition, you mentioned we had competition before—we had prices down equivalent to the cities. What has happened to that competition then? Or have people got together and looked at the MyFuel site and said, ‘They are that prices, we will stay with that price’? They may not have got together officially, but they can see the prices around and say, ‘We are comfortable with that price, we are not moving’. Competition is supposed to be competition, but does it always work that way?

Mr HILL: That is right. I (inaudible) site the last 12- or 18-month period, as I mentioned, but you have seen some sites leave and others not follow. So, potentially, it is the volumes. Certainly the lag we are seeing now is probably unjustified. We have seen that wholesale price since March and by now we would have expected the pricing to be probably in line with what at least the pricing we see now at Coolalinga.

Madam CHAIR: To recap what you were saying, the ACCC talked about volume collapse. You disagree that it has been 30% to 50% in the Territory?

M HILL: Only from the indications. I cannot give that …

Madam CHAIR: From your indications …

Mr HILL: We do not have data across the whole market. All we can say is that—that data is based on well over 7000 transactions that have taken place in that month. We collect data on litres sold and compare it year-on-year. That was 12% in March and 30% in April. It probably correlates (inaudible) when we talk about use of vehicles within Darwin, that 25% drop in our road service as well tells us that—certainly our forecasting was that would be probably a lot higher drop in April, given the shutdown. But people are still using their motor vehicles, so it is an indication for each (inaudible). That is on a lot of jobs every month.

Madam CHAIR: Certainly on this past weekend.

Mr HILL: Yes.

Madam CHAIR: Thank you. We are on a bit of a tight agenda, I apologise for that …

Mr HILL: No, that is fine.

Madam CHAIR: Mr Hill and Mr Bell, thank you very much. If you have anything to add—if you walk out of the room and think, ‘I should have said that’—please feel free to let the committee know.

Mr HILL: Will do. Thanks for the opportunity.

The committee suspended.

Puma Energy Australia

Madam CHAIR: My apologies we were waiting to hear some sort of noise I think that showed us you had connected but it looks like it is a bit more seamless than that.

On behalf of the committee I welcome everyone to this public hearing to give evidence to the committee in this session via teleconference Mr Steve Niebling, the Fuel Pricing Manager from Puma Energy Australia; Mr Alan Plews the General Manager - Retail, Puma Energy Australia and Mr Mark McKenzie, the Chief Executive Officer, Australasian Convenience and Petroleum Marketers Association.

Thank you for coming before the committee this morning. We appreciate you taking the time to speak to us and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

I will not ask you then to state your names straight because I think I have just noted that for Hansard. Mr Niebling would you like to make a brief opening statement?

Mr NIEBLING: No we will just hand over to Mark McKenzie, our representative from ACAPMA, to make a statement.

Madam CHAIR: No problems. Mr McKenzie?

Mr McKENZIE: Thanks Steve. Thanks Madam Chair. I suppose the key thing to actually highlight here is a series of remarks that we have been providing nationally in the press and I sort of got to hear the tale of the AANT approach and also very familiar with the comments that the ACCC have actually made in the past.

Probably the biggest thing to actually start is just with the word unprecedented. There seemed to be a lot of people making comparisons. I heard some of that in the tale of the previous session you just had with normal arrangements forgetting effectively that the fuel retail industry is just that, a retail industry, where if it actually gets significant falls in volumes of sales business has one of two choices; either to close up its doors or to actually find ways to recover the unit sales that it has actually lost as a result of their costs not changing.
So we have been tracking fuel price movements across the country since the COVID-19 arrangement or downturn actually started. We really did not see any significant change in volumes until the week ending 22 March and at that time we started to see some fairly significant fall-off.

Now the figures we use in terms of industry tracking are actually the card data that is actually used to pay for fuel. It accounts for about 60% of the transactions that occur across the country and what we have actually seen.

I draw your attention to some of the media commentary that occurred on the east coast that is now available on the ABC online site. We have actually seen a 50% fall across the country in terms of retail sales volumes and a 30% decline in diesel. In regional areas of South Australia and Northern Territory the decline in sales of motor spirit has been as high as 75% to 80% and in diesel volumes has been close to 40% or 45%. Within that context it is important to remember there as a retail business that reflects a drop in incoming revenue, but my costs are not changing. While a lot of the focus is on what is happening at the wholesale component of the fuel price, there are some very simplistic, almost magical, assumptions that are being applied in regard to what is happening on the retail side.

The fuel industry is a bit of an unusual industry in that, by all accounts, people consider it as being somewhat an essential service, which is why as an industry we are subject to the scrutiny the ACCC applies. All our market participants, or the big ones, are actually required by law to report costs and margins. That gives you a bit of an idea about the dynamic that is actually operating.

The 50% fall in revenue actually means the cost of retailing a litre of fuel doubles, unless something changes in respect of the prices the business is wearing. That is either by making people unemployed, reducing my operating hours so the costs come down—we have seen some of that behaviour across the industry. But clearly there is also an imperative, particularly in the NT, where you actually have a fuel site that might be the only one, when we look at the far-flung areas, where eventually there is that service requirement.

In those circumstances the cost of servicing is such that there might only be one or two service stations in the area, so the competitive tension, which was touched on by the ACCC and others, is not as heavy as in the middle of a capital city or even in the middle of Darwin.

In that context, we have seen a drop in wholesale prices, so this is reflected by a drop in oil prices. The AANT has some data and I will give you some—you will probably be flooded with it here—that contradicts some of the statements that were made in the prior presentation, but only really around the fringe. The key issue is that while the wholesale cost for a retailer has gone down, and that has reflected a knock-on effect from changes in world oil prices, the retail cost of selling fuel in regard to the unit cost because I am selling lower fuel volumes—the unit cost of fuel sold is going up.

While a lot of people have said to our industry, 'You need to cop the heat along with everybody else', the challenge is that we operate in such low margins—I will share those with you in a moment—that, effectively, if those service stations are making a choice between whether they close or capture some of the wholesale reductions to offset the increase in retail costs, they are actually doing that to survive. The alternative is that those retail complexes close.

We are in an unprecedented situation where we have seen some phenomenal falls in world oil prices. We have also seen unprecedented falls in demand across the network. As a result, what we have is retailers responding to that.

To give you a bit of an idea, because there is some information you will not have seen and is not available in the market, I am happy to provide the analysis because it is a piece of work we released last week. The OPIS, Oil Price Information Service, released its first Australian quarterly report, which covered the period January through to the end of March. While that pre-dates the COVID-19 period, it gives some interesting insights in regard to relativities of the fuel retail price component.

In Darwin for the period January to March 2020, the average retail component—this is the price less the wholesale price of the fuel, not necessarily the terminal gate price, as I will come to that a little later on. The price the fuel retailer pays for the fuel to be delivered to their site, less the retail price at which they sell it to motorists in Darwin was the lowest in the country. For the first quarter 2020, the average margin for January, February and March 2020 was 9.7c per litre, before wages, rent, electricity and retailing costs are considered.

That compares to the average for the five largest capital cities in Australia, which was at 15.4c per litre. Darwin was at 9.7c and the highest of the group was Hobart at 23.88c. What you are seeing is that—at a retail price component—the retailers operating in the Darwin market for the last quarter had the lowest retail price component in the country. That was also replicated in the fourth quarter of 2019 where the average for the retail price component was 4.75c per litre, which compares to the capital city average across all five cities of 14.33c per litre. It was a bit less than a third of the price that was charged across all markets. That is for petrol.

If I look at a similar situation in terms of diesel with the retail price components, quarter 2020 for fuel retailers was 11.25c per litre before consideration of operating cost such as labour utility lease. In the fourth quarter of 2019, the margin was 4.33. For the diesel quarter, 11.25c compares to the capital city average across all five capitals of 18.6c per litre. For the December quarter of 2019, 4.33c per litre in Darwin compares with 12.13c across capital cities.

In relation to those figures, I wanted to demonstrate that the suggestions that this is occurring as a result of gouging, which was the statement previously made by the AANT—I put evidence on the table and am happy to provide the source document here, which is the analysis of prices for quarters December 2019 and March 2020. They are current quarters, not the 2017–18 period that the ACCC used in its latest report. You can see the Darwin retail price components—that is its margin plus all its costs—are the lowest in the country and had been for some time.

Part of the reason we get higher price coming through is because of the land component of price, which has to do with storage and transport to a market that is not intense; it is actually far spread. As a result, you are moving small volumes of fuel significant distances relative to what you would see on the eastern seaboard. That means that while you will get a change in the wholesale price reflected as a result of global oil changes and regional price—by regional I mean the south-east Asia region—Darwin has a low volume market where the fixed cost of transport, storage and retail of fuel are higher than any other capital city of the country. As a result, they are not costs that change when wholesale prices vary.

If I look at the performance of the Darwin market in the last nine weeks—the period for the week finishing on 5 March to 3 May—the Darwin average unleaded petrol price fell from 136.1c per litre to 114.7c per litre yesterday, which is a 16% fall across the market. If I compare that to Hobart, its fall was 154c to 123c, which was 19%. For Brisbane over the same period, it fell by 20%.

There is always an argument to say we should have fallen by the same rate as Brisbane, but given the differences in servicing a low-volume market—with storage costs and others—you do not get full cost-reflective price of the wholesale changes flowing through to the retail price changes. I would argue or venture to suggest that a 16% reduction is pretty well comparative to what we are seeing in Hobart at 19% and Brisbane at 20% given that those wholesale fixed price charges—in terms of storage, transport and retailing—do not change when the wholesale price varies.

I will stop at that point for an opening statement and am happy to answer any questions that might come in relation. I draw your attention and am happy to provide the OPIS quarterly report. We provided some comprehensive commentary in the media on the fuel price and volume falls and we impacted that relativity on the rate in which prices are falling in capital city and state geographies.

Madam CHAIR: Thank you, Mr McKenzie. One of our members, Mr Wood, has a question.

Mr WOOD: Good morning, Mark. Gerry Wood here. I have two quick questions. Could you explain the difference between the gate price and the wholesale price?

Mr McKENZIE: The terminal gate price, or what we actually are required to produce underneath the oil code, is the instantaneous price if I was to drive a truck to a gate—it is like a reference price. It is not a contract price. This is part of the reason why you have people who have these huge differences in margins.

Where you have a falling price market that occurs—if I was to buy on-spot—and there was one of the brands you mentioned in the previous session—there is a portion of our market that buy an instantaneous price. They tend to be those who operate at a discount level. They do not lock into a contract. As a result, they buy the storage price at the terminal. They then transport it from there to their sites.

The actual price that service stations pay depends upon how they buy the fuel wholesale. One of the things that a lot of fuel retailers do is protect themselves—that wholesale price, the terminal gate price, can be very volatile. To smooth those impacts on cash flow, a lot of business actually buy the contract price. It might be a past-month average or a rolling three- or four-week price that takes the price from the last four weeks and passes that through on an average. That continues to apply.

When you are in a falling market and the wholesale or the terminal gate price—the instantaneous price—is falling pretty sharply, you get the current-day prices a lot lower than the contract prices that service stations may be paying. As a result you will see a significant difference.

I will not go into the details of that for individual fuel retailers. One of the reasons that is not recorded is that there is commercial sensitivity on that. If I am buying under a brand or brand licence, I may have marketing and other fees that are tied up with that price. So, the effective price to the fuel retailer is significantly above the instantaneous terminal gate price, which is the price people are using to gauge the efficacy of our market.

Mr WOOD: Mark, who buys—say, in the case of Puma or United? Does the service station franchisee or the owner or whoever is running that service station buy the fuel? Or does Puma, because it is a very big fuel company, have an arrangement with say, Vopak, for a set price when they buy fuel for all their stations?

Mr McKENZIE: I might put that to Steve or Alan, if they care to answer that one.

Mr PLEWS: Thanks, Mark. We operate most of the service stations that are Puma branded in NT ourselves. They are company operated, so that will be Puma fuel at those sites. But we have a handful of sites that we classify as DODO or RORO, which is a retail-owned, retail-operated site. In theory that is a small business or a family that owns the service station and we provide the brand and they would buy at that terminal gate price. Then they set their own price.

Mr WOOD: For the other fuel stations, you buy the fuel?

Mr PLEWS: For the sites we operate, yes, we own the fuel.

Mr WOOD: You set the price, basically?

Mr PLEWS: Yes, correct.

Madam CHAIR: From that, that would mean that we could, potentially, in Darwin see two different Puma service stations with two different retail prices? Is that correct?

Mr PLEWS: Yes, 100%. Yes, definitely.

Mr McKENZIE: That is a phenomenon we see across the country. We all tend to focus on an average. The reason we use an average is because on any given day the fuel price can vary between 8c, 10c or 12c a litre, depending upon how fuel is actually bought.

Alan has touched on—and it would be worthwhile spending time on the three models that are operating in the country at the moment. The first of those is COCOs—company-owned, company-operated. That is where the brand that is flying on the service station forecourt is also the employer of the people who work at the service station. It owns the service station or has a leasehold and it purchases the fuel and sets the price.

The second is what we call a CODO. This is a commissioned agent. It is basically akin to a small business that sits on a site that is owned by the company that displays the brand. They are operating as a tenant with the fuel marketing company as the landlord. The business that is on that site is effectively selling fuel on commission on behalf of the marketing company. It is a form of franchise. It is not strictly a franchise because the business does not have control over the fuel that is in the ground. Custody transfer occurs when the fuel is pumped in to the tank and the business is paid a fixed click for selling fuel on a commission basis.

The third group that we have is the DODOs; dealer-owned dealer-operated, or retail-owned retail-operated as Alan has talked about. These are small businesses where they own the site or have a lease on the site. They enter in to a brand marketing relationship where they purchase fuel on contract over a three or a five year period. That actually comes with a marketing cost. They contract to purchase the fuel only from that operator and they get the right to display the brand.

As a result, as you rightly said, you can look at a service station applying two Puma brands and they will be operating very different models and therefore they will actually have very different cost structures and that is why you get a variance in fuel prices.

Mr WOOD: How does that apply in Darwin, many franchise owners?

Mr McKENZIE: Across the country the average has been to identify from the ACCC one third COCOs, 16% DODOs, so that is 48%, 49% and you have got 27% dealer-owned dealer-operated and then the balance which are independents tend to be small businesses that operate a variety of different models.

Madam CHAIR: Is that just Puma or was that the whole market?

Mr McKENZIE: That is the whole market so I will let Alan talk about Puma.

Madam CHAIR: I think Mr Wood's question was just for Puma.

Mr WOOD: I just wanted to know what Puma, what that is like in Darwin for Puma.

Mr PLEWS: In Darwin the overwhelmingly majority are COCOs, they are company-operated sites. The only sites in Darwin what we call RORO or DODO is the Virginia store and Coolalinga. You would see the price at those two sites would potentially be different because they make their own pricing decisions as opposed to say, our company-operated site around the corner at Howard Springs or at Palmerston.

Madam CHAIR: What percentage would you describe as your market share, in Darwin?

Mr PLEWS: For Puma in Darwin?

Madam CHAIR: Yes.

Mr PLEWS: Oh, 30%.

Madam CHAIR: I have Mr Higgins, he is also on a phone hook-up who has a question. Mr Higgins.

Mr HIGGINS: My question I think was to Mark who was talking about that (inaudible) stuff and then the retail price margins et cetera. He said that the storage and transport costs stay fixed but that wholesale price that the distributors are buying it at varies.

Have we got a breakdown of what that percentage is and how it actually varies, so in other words, today I would imagine that the storage and transport costs are going to be a larger percentage of what that gate price is, if I use that, compared to what would have been, say six months ago. Do we monitor those in percentages in any way, shape or form?

Mr McKENZIE: We do not go down into that detail because some of that is actually very commercially sensitive. What the ACCC does is to just look at the price relativities of terminal or gate prices say in Brisbane, Sydney or Melbourne compared to Darwin and what you will see typically is that the Darwin prices are, if I look at the last eight weeks, about four, four-and-a-half cents a litre higher on average than the prices we see at the east coast terminals. Whether that is a consequence of the smaller volume going through a facility—so you are amortising a capital cost across a smaller volume—or whether that has to do with just the nature of the transport costs, we have always seen that Darwin has a higher terminal gate price and the price in terms of storage can be about 50% higher than you would see at a high-volume terminal on the east coast. We do not delve further down.

I suppose the key point I was actually making here is that while the wholesale price landing in the country is lower the challenge we get is…

The key point that I was making here is that while the wholesale price landing in the country is lower, the challenge we get is obviously in relation to the fact that those storage and transport costs stayed the same; they do not change.

Mr HIGGINS: Okay. I was trying to get an indication as to what average percentage that storage and transport costs make up that price in the Territory compared to New South Wales, or South Australia. Not being exact but trying to get what percentage makes up that total cost.

Mr McKENZIE: It is really hard in the Northern Territory, Mr Higgins, because here you have volumes being moved very long distances, and relatively small volumes. The most efficient way to transport fuel is obviously by pipeline. If you are moving a truck that is moving a volume of fuel 10 kilometres from Port Botany to one of the service stations in Sydney that is obviously a lot lower than it is moving a truck from Darwin to Katherine or to Alice Springs. In that context, you get this huge range. So, using an average there would be probably quite misleading. We just do not have an average for a place like the Northern Territory, given the sparse nature of the market.

Mr SIEVERS: Just in capping, you are saying that revenue across the country is down 50 to 80% and the Northern Territory it is about 30%? Is that correct? In the Northern Territory?

Mr McKENZIE: The 30% that I mentioned was our market share.

Madam CHAIR: What would you approximate is your volume collapse across the Territory and Darwin?

Mr McKENZIE: For Puma?

Madam CHAIR: Yes, due to COVID-19?

Mr McKENZIE: We would be down around 30% across all grades.

Mr SIEVERS: We have heard that January to March 2020, we had a very competitive market in the Northern Territory, and we have heard from others around the MyFuel app. We have also heard from others that the price difference in Darwin has not followed current trends around the rest of the country, in particular, the current lag time for retail price decreases is longer than average. Would you agree with that?

Mr McKENZIE: Absolutely, if you get a low-volume market where the rate of demand halves—just clarifying what Alan said; he talked about across all grades. So, that is diesel and petrol. Petrol across the country is 50%; diesel is down around 25-30%—but if that halves, that means the time that it takes for the fuel I buy to go into the service station doubles.

In that circumstance, if you have a low-volume market where the lag is already large, such as Hobart and Darwin, then in a COVID-19 situation where the demand effectively dives, you will see that exacerbated and will be much longer than you will get in other capital city markets.

Mr SIEVERS: Okay. If we have storage costs and all of that set in the Top End, transport from overseas to Darwin, in particular, is shorter. It would not cost so much to bring it to Darwin to offset some of the higher costs you are talking about. They are set costs. The fuel is there. You are saying transport from there to the remote areas is a higher cost, which we understand, but that would be the same in Western Australia. Can you explain that? Because the costs from overseas to get it to Darwin should be cheaper. We have set costs when it is here and transport costs to remote areas which would be the same in remote areas of Western Australia and Queensland.

Mr McKENZIE: Alan, is that a question you want to address?

Mr PLEWS: It is difficult to address perfectly, but we only have the one terminal in Darwin which is not operated by Puma, it is operated by Vopak. It is probably more of a question to ask Vopak. To me, it is more about the volumes. Even though we have the terminal, it has to pay its way based on the volume that goes through the terminal.

When talking about Puma's experience in the NT, the volumes per site is the lowest of all the states and territories. We operate everywhere except for the ACT and Tasmania. The volumes that go through on our average site is the lowest in Darwin by a considerable amount. We also experienced our lowest fuel margin in the NT out of all the states we operate in over the last three years, not just the last couple of months.

It is probably not directly related to the question, but to make the NT more difficult for Puma, the cost we experienced in the NT—looking at head leases for example—is the highest out of all the states on average per

site. There is a lot against us in the NT which makes it difficult to compare exactly like for like when you start talking about WA or Queensland.
The only other comment I will make is that you are trying to compare a snapshot in price of today in the NT. The average in the NT today is 116c. You are comparing against the low point in a price cycle for, say, Brisbane or Perth. Brisbane is currently restoring up to 119c. That restoration would place the price for Brisbane in 24 or 48 hours higher than Darwin and similar in Perth. Perth has a weekly cycle and we expect it to restore again tomorrow. The price in Perth and Brisbane by tomorrow will be higher than what we are seeing in Darwin.

The committee suspended.

United Petroleum Pty Ltd

Madam CHAIR: I welcome you Mr David Szymczak, Chief Operating Officer with United Petroleum.

Thank you for coming before the committee this morning. We appreciate you taking the time to speak to us and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

Mr Szymczak, could I please get you to state your name, the capacity in which you are appearing and make a brief opening statement?

Mr SZYMCZAK: My name is David Szymczak and I am the Chief Operating Officer with United Petroleum.

Madam CHAIR: Would you like to make an opening statement or go straight to questions?

Mr SZYMCZAK: I am happy to make opening statements. Hopefully that will assist to inform the committee. United Petroleum has been in the Northern Territory for about 15 years now. We have always put downward pressure on price and therefore margins in the Northern Territory.

We operate in about 16 sites through various business models within the Northern Territory, and we have always had a stated objective of expanding further into the market. United also introduced, about five years ago, a discount card with the AANT, which was quite successful for us and the AANT membership. We also accept other loyalty-type discount schemes.

During the last few months, and indeed much further back than that, we have been at or below our competitors from a pricing point of view. Today that is still the case; we are either matching or, in some cases, quite a long way below the market with our bought prices.
Volume through points during the last couple of months have been dramatically affected, in March and April. In the case of April, the volume fall has been nothing short of breathtaking. One of the things the committee needs to take into account is that retailers' margins, for the most part, are partially fixed in that you still need to pay rent, wages et cetera. If the business falls dramatically, obviously your operating costs go up.

During the month of April particularly, world oil prices fell dramatically. We are not alone in getting caught with old stock in service stations. It impacted margins significantly and at the same time, volumes fell. Whilst you tried to clear out the old stock as quickly as you can, in some cases you simply cannot do that.

Some of our sites, from a volume point of view, have been impacted more than others. There are a few sites in the Northern Territory that we look at and say that they should not be operating; they should be closed because the amount of business is not sufficient to turn a profit.

The other thing is that the oil industry is not immune to the uncertainty of the COVID-19 pandemic. It has led to dramatic impacts, not only on our business in the Northern Territory but nationally. We have been working very hard to change our business and do things in order to offset the impact. Some of the things we did included deep cost-cutting across our business.

We have been fairly aggressive, as much as we can, with petrol price discounting to drive volume. But where the volume is not there it is not something that works well. We have introduced new products—toys and IT products—to delight our customers. We have sought to supply goods to consumers that have sold out in supermarkets. We also own an ethanol refinery in Dalby and we sought to change that to produce ethanol suitable for the production of hand sanitisers, and we have arranged for hand sanitisers to be distributed across our retail network.

Community concern about petrol pricing in the Northern Territory is not a new thing. At the end of the day, there are a number of factors that cause the concern and the issues in the Northern Territory. Some of those are structural issues. Generally, it is more expensive to operate in the Northern Territory. Whether we like it or not, anything you do costs that little extra.

One of the things we have been very consistent in saying is that if you want greater competition in the Northern Territory, then you need to have more service stations in more areas that can drive that competition. That said, growing in the Northern Territory is not that easy. In our case, we have been trying to build, for the last three years, two new sites in Alice Springs, and had great difficulty in doing that. Indeed, the one in Schwartz Crescent is still under negotiation, even though we had a signed or approved development application. The local council decided not to allow us to go forward with it.

I understand the concern the community has with petrol pricing. We are very alive to that situation. I am happy to take questions.

Madam CHAIR: Thank you, David, that is very insightful. Mr Wood, did you have a question?

Mr WOOD: Yes. Good morning. When you say service stations you have in the Northern Territory, do you own those service stations and run them as United, or do you run them as franchise?

Mr SZYMCZAK: We have 14 sites that we operate on the basis of commissioned agencies. We have business partners that operate the service stations for us. We own and price the fuel in those locations. There are two other locations that are dealers where they make the pricing decisions and we are not involved in it.

Mr WOOD: So, you set the price in those service stations you first mentioned. The other …

Mr SZYMCZAK: In the 14 service stations, yes.

Mr WOOD: And the one at Coolalinga can set its own price?

Mr SZYMCZAK: Sorry, say that again.

Mr WOOD: The one at Coolalinga, which is $1.09 at the present time, is able to set its own price?

Mr SZYMCZAK: No, no. At Coolalinga, we set the price.

Mr WOOD: So, is there any reason that it is 5c cheaper than the other United?

Mr SZYMCZAK: Which other United?

Mr WOOD: Other United in Darwin. You have Coolalinga selling at $1.09 at the moment, and …

Mr SZYMCZAK: Yes, there is. We have decided to discount the price at Coolalinga.

Mr WOOD: Well, that is good because I live out that way. I am not complaining. I am just asking why there is a difference with the others.

Mr SZYMCZAK: Well, when you run petrol stations, you do your best to protect your volume and have your volume at a certain price, because you have to generate a gross profit to be able to cover your costs. So, you really have three decisions. You can either put your margins up to drive dollars that way, operate somewhere in the middle, or discount hard and try to get volume through, hopefully generating a higher gross profit.

In the case of Coolalinga, the impacts on our volume have been high, so we decided to try to discount in that location to drive business.

Mr WOOD: Okay, thank you.

Madam CHAIR: Do you have an idea at all, David, of the percentage of fall due to COVID-19?

Mr SZYMCZAK: Sorry, say that again.

Madam CHAIR: The percentage of the volume collapse from COVID-19—do you have a sense of that, even if it is just Darwin or across the Territory?

Mr SZYMCZAK: I would not like to publicly reveal those numbers because, obviously, I have competitors who are also open to that conversation. So, I am happy to reveal them *in-camera*, but not publicly.

Madam CHAIR: Perhaps we could do that offline afterwards, if that is okay?

Mr SZYMCZAK: Sure.

Madam CHAIR: Thank you. Mr Mills, do you have a question?

Mr MILLS: I am right.

Madam CHAIR: Mr Sievers, do you have a question?

Mr SIEVERS: We were talking about lag times in the Territory. I listened to you earlier and obviously you have a business to run and have old storage and fuel that you must get rid of that you bought at a different cost and have to run out. Do you think the lag times are excessive in the NT compared to other states and jurisdictions?

Mr SZYMCZAK: Probably not. The problem is that it is very difficult to compare. Everyone in the oil industry, given massive drops in fuel volumes—for the most part across the country you saw volume falls of 50%. Faced with that and stock that owes you more than what you are buying it for the day before, you do the best you can and make the pricing decisions you can in order to protect the business and turn a profit.

Trying to generalise is extremely difficult. It is a difficult and uncertain time. We are not in it on our own. At one stage, we wrote to landlords in early April saying, ‘At this stage, we will pay 50% rent for April because we do not know what will happen. To the extent that we have more than 50% business, we will calculate it and show it to you and pay the difference to that volume.’ As it turned out, United was in a position that given the work done, it was able to write to landlords in late April and say, ‘Good news, we will pay you all of April and May. We are not sure what will happen in the future but we will pay 100%.’

The reason that we go there was hard work from our team during April to protect the business. Pricing of petrol is just part of it; it is also the shop. The reality is that—it seems that often this is missed—it is not unusual in a place like Darwin or any other capital city where a brand’s service stations will have different prices because they have a different elasticity and demand from a price point of view. They also face different local competition. Trying to generalise is almost impossible and if you do, you miss the granularity of the problem.

Madam CHAIR: Were you listening to the presentation previously by Puma?

Mr SZYMCZAK: I heard parts of it.

Madam CHAIR: They outlined the different structures of the stores across Darwin. Could you do the same thing for us? Are your outlets run by the company or do you have franchisees? Could you give us a sketch of what that looks like?

Mr SZYMCZAK: There are four different models. The first and most common one is what we call ‘commission agency’ whereby the person runs the site for us and employs the people. We pay him a commission to sell our fuel to the general public which we price. We have one franchise operation in Darwin which is operated from a fuel pricing point of view on the same basis. We then have two dealers in the Northern Territory whereby we essentially enter a supply agreement with a licence for them to operate themselves and they make the fuel pricing decision. We have one or two wholesale supplied sites where a person buys petrol from us and retails it to the general public and we do not get involved in the price they set.

Madam CHAIR: Are they branded as United?

Mr SZYMCZAK: There is one branded as United.

Madam CHAIR: And the dealers would be branded as United?

Mr SZYMCZAK: Yes, the dealers are branded as United.

Madam CHAIR: What would your market share be in the Territory?

Mr SZYMCZAK: To be perfectly honest, we have never measured it, but I would imagine it to be 8% or 10%.

Madam CHAIR: Thank you for your openness this morning. We appreciate your time in giving evidence to this hearing.

Mr SZYMCZAK: Thank you.

The committee suspended.

Viva Energy (Coles Express)

Madam CHAIR: On behalf of the committee, I welcome everyone to this public hearing into Northern Territory fuel prices. I welcome to the table to give evidence to the committee Ms Megan Foster, General Manager, Consumer; and Ms Edwina Pribyl, Head of External Communications. Thank you both for your time in coming to the committee. We look forward to hearing what you have to say today.

This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

Ms Foster, would you like to make a brief opening statement?

Ms FOSTER: Yes, I would, thank you. Thank you, Madam Chair and the committee for providing Viva Energy the opportunity to participate.

For general background, Viva Energy is a leading energy company. We supply around a quarter of Australia's liquid fuel requirements. We have local production at our Geelong refinery, which supplies about 40% of our own needs and about 10% of Australia's fuel requirement. This is supplemented with imported products which are delivered nation-wide through our network of about 22 fuel import terminals around the country.

Specifically in Darwin, we are joint participants in the Vopak storage terminal, whereby our fuels are imported and stored at a single-source terminal where the operator—in this case Vopak, who you will hear from later today—charges us a storage and handling fee. Like all terminal locations across Australia, we post the terminal gate price for Darwin each day, which is a rolling average to smooth out the increases and decreases. There has been a lot of talk this morning on the terminal gate price, and I will touch on that a bit further on.

We are also a proud manufacturer and supplier of low-aromatic fuels since 2014, and we supply the Top End in supporting the federal government's Indigenous Advancement Strategy, which was previously the Petrol Sniffing Prevention Program.

This is a bit of a background. We are actually exclusive licensee of the Shell brand in Australia, and we supply fuel to more than 1260 service stations nationally as well as to a range of wholesale and commercial customers.

In the Northern Territory we supply 15 service station sites. Since 1 March 2019, we set the retail price at 11 of these Shell/Coles Express sites, which represents about 13% of the Northern Territory service station market in site numbers. The fuel prices in the remaining four of the 15 are Shell branded service stations but they are set up by independent service station operators. My comments today about fuel pricing will be relevant to those 11.

There has been a lot of talk about COVID-19. To give a bit of transparency, we are quite happy to share our volumes across the nation across all fuels consolidated is about 40% since COVID-19, and particularly for Northern Territory across all fuel grades, it is just on 30% volume decrement. That is significant and gives you some understanding of where our volumes are across the period.

On the terminal gate price—and Mark covered this quite extensively—it is a really useful guide to the terminal gate price, but it does not reflect what retailers earn on any given day. For a refiner wholesaler like Viva Energy, the relevant fuel parcel being sold today would have been purchased months in advance and been imported or refined in Australia. In Darwin, for example, our last delivery was early March—5 March. That was the last time we had a delivery.
In Darwin, we only bring in our fuel every two months. We bring in between five and eight kilotonnes. If you compare that with a Sydney market where we bring in over 40 kilotonnes every three to four weeks, the volume is very different to what we bring into the Northern Territory.

In the current environment that means that the fuel that is sold today, despite the TGP being (inaudible), potentially more expensive due to the price timing effect.

In the different competing dynamics, we have already touched on the fact that Darwin does not have a price cycle compared to the five major capital cities, where fuel prices have tended to be quite stable. Noting the talk about volume from Viva, our volume in the Northern Territory sites are about 40% lower than the average of the five capital cities.

If you assume similar operating costs, you would expect—and it would make sense—that fuel prices will be higher in these markets to cover the cost. Mark touched on this before.

We have already touched on the fact—and you are aware—that we have experienced the lowest pricing in this market for quite some time. That went through to February this year and it was also reported in the ACCC report in December quarter where Darwin was registered at 5.3c per litre lower.

That is a bit of a snapshot from Viva Energy. I am happy to take any questions. If I cannot share anything from a commercial point of view, we can always come back to you on that, given that some things might be commercially sensitive. I am open for any questions from the floor.

Madam CHAIR: Thank you, Megan. I will kick off with a quick qualification to something you said in your opening statement. I am wondering, I think you said it was about 40% down due to COVID-19 across Australia. Would that be the same as in the Northern Territory and the Darwin market?

Ms FOSTER: No. In the Northern Territory we are about 30% down in volume for the Northern Territory …

Madam CHAIR: Right, 30%. Sorry, you may have said that but I missed it.

Ms FOSTER: No, that is okay. That will vary between products. Across nationally, diesel is not as to the decrement, but somewhere like Victoria can be well above 50% in ULP, which is your motor gas. It is variable across the nation, but the average for us is about 40% down in volume nationally, and the Northern Territory across all grades is about 30%.

Madam CHAIR: Terrific, thank you. Mr Wood, do you have a question?

Mr WOOD: Hello Megan, Gerry Wood here. I ask a slightly political question. As we have heard on the radio, ACT government is basically threatening fuel companies that if they do not drop their price below $1 a litre they will cause that to happen. What is the company’s view of government stepping in and setting the price, or forcing the price to be a certain amount?

Ms FOSTER: Thanks for the question, Mr Wood. A tricky one—thanks for that. The reality is that we believe …

Madam CHAIR: I thought it was a good one.

Ms FOSTER: It is a good one. You left the good ones for me, Gerry. Thank you very much.

The reality is we believe that the market and the industry is incredibly competitive as it is. You have lots of factors. It is probably one of the most competitive retail markets that I have had the experience to work in or be exposed to in the dynamics of it.

Our view is we do not believe there is a need for regulation. The reality is it is quite a dynamic market with lots of competition. It is quite a complicated market—probably one of the most complicated from a pricing and competitive point of view. Our view is that the market has its own market forces and is incredibly competitive, with different variations across the nation. That is what we are seeing now, depending on different volumes, situations and operating models. Our belief is that the industry is incredibly competitive and there would be no need to regulate that as a result.

Mr WOOD: Okay, thank you.

Madam CHAIR: Mr Sievers has a question.

Mr SIEVERS: Hi Megan, we have spoken this morning about lag time. Historically, the Territory has been about two weeks' lag time, but since March our lag time seems to be excessive—about six weeks to two months from COVID-19. Would you agree with that?

Ms FOSTER: Not really. As I said, the last delivery we had into Darwin was early March, so that fuel we brought in had a very different pricing than the terminal gate price is today. So, the lag really is because you already have—my colleague from United had stated that we already have quite low volumes out. Our volumes in our sites in the Northern Territory are at 40% less than our other capital cities. If you add on, then, a 30% decline in volume that means the fuel that is there was purchased at a much higher price.

My colleague from Puma also noted that this will change very quickly at the moment because we do not have a price cycle in the Northern Territory. You will find that within probably a week or so prices in the Northern Territory will be lower than, potentially, a lot of the capital cities because those markets cycle. At the moment, the cycle is moving up to $1.19 in some capital cities.

This incidents we have is directly related to lag and you will see that, as that comes through, it will reconcile as we move into the next period.

Madam CHAIR: Megan, it is Kate Worden. If that is the case and you have not purchased anything since March, when the next one comes in—and I presume it would be at a lower price—should we see an extended period of lower prices as we consume what is there, longer than in other places?

Ms FOSTER: As our colleagues and the ACCC said, there are a number of factors that influence pricing—obviously, the price you pay but also the levels of competition, the volumes you are doing, et cetera. The answer is you will see that come through, but there are a lot of other factors that come into pricing as well. The level of competition and what is happening in the competitive market will also influence that as well.

Madam CHAIR: Would they not be a factor at the moment as well?

Ms FOSTER: Pardon? What was that?

Madam CHAIR: All of those factors would be at play at the moment, but the one thing that changes is the price in the next delivery—if we talk about it in those terms. That delivery then lasts probably a bit less time, because people are going back to a bit more activity. However, during that extended period of time with it being stored here, surely the price would have to be lower because the factors would be the same before and after? In fact, if you have greater volumes going through because people are returning to driving, then that should even drive the price lower?

Ms FOSTER: There are different factors. Not everyone works off the same factors. We talked earlier today about spot sales. Some of the sites in the market would be buying off spot sales, which is meaning they are taking advantage of the current terminal gate price. So, it is not an equal—not everyone is working off the same scenario. Some, as we talked about before, have locked-in contract prices et cetera. Then the competitive forces come into play. That is why you will have different people in the market at different times pricing differently—without really understanding what their supply price is—because everyone, potentially, is not working off the TGP.

Madam CHAIR: What is your structure in the Northern Territory? Are all your outlets—and I note that Viva Energy is Coles Express—all owned by Viva, or is there a mix, as you heard the others giving their evidence on ownership previously?

Ms FOSTER: There are 15 sites. Four of those are what we call the dealer where we just supply and brand under the Shell licence agreement. Eleven of those are what we call—it is more of a CA model. It is a bit different. We supply the fuel and we set the price, but Coles Express actually operates the site. They employ the staff and run the convenience store. Our model is slightly different. If you think about a comparable to my other colleagues presenting today, it is more along the lines of a CA model—commission acting.

Madam CHAIR: Does Viva set the price for all of the 15?

Ms FOSTER: Yes. Viva sets the price for the 11 Coles Express sites in the Northern Territory—seven in metro and four in regional—we set the price. For the other four, the independents will set the price. They will be branded Shell but they will not be Shell Coles Express.

Madam CHAIR: Thank you.

Mr SIEVERS: Megan, I have heard from other people before the committee today that, around Australia, people have lost around 50-90% in their volume sales and revenue. The Territory has only lost 30%. Yet in other jurisdictions around the country, they can get it under $1. In the Territory, even though we have only lost 30%, we are seeing increases in differences of up to 30c in Darwin, and from 53c to 93c in Alice Springs, since March.

That is what we are trying to understand. We have heard factors relating to competition, storage costs, travel costs, but other states and jurisdictions bear that as well. That is our quandary.

Ms FOSTER: I understand, Tony. The biggest issue for the Northern Territory is the volumes that are going through. For our sites in the Northern Territory, there are much less volumes; we are 40% less on the average capital city in terms of volumes going through the sites. Then if you extrapolate that with the extra 30% down, that is where the differential is when we talk about the lag. The lag in the Northern Territory would be exacerbated because of the current low volume levels.

There was a point made earlier in the conversation. The cents per litre average margin has been incredibly low for Darwin for some time. That would be another factor.

Mr SIEVERS: We have heard around fixed costs for storage and so forth. Have any of those fixed costs been renegotiated since COVID-19?

Ms FOSTER: Some of our biggest costs are in terms of running our businesses. For the Coles Express network, the actual costs of running the sites are the responsibility of Coles Express so we have a different arrangement. The biggest cost that we have is rent. There has been no ability to negotiate the freight, storage and handling. We only have one operator single terminal and you are hearing from Vopak later today. So, those costs are relatively fixed.

Madam CHAIR: Do you have a view on the competitive side of the market, particularly here in Darwin, but in the Northern Territory about how many outlets there are and whether you think there is much room for additional outlets?

Ms FOSTER: I think it is a competitive market and the reason you have seen—and Mark validated the margins—is that is reflective of the margins that have been earned in the market. It is quite competitive at the moment.

You made the point, Madam Chair, if there are more service stations that means there is less volume. Potentially, unless you are growing volumes, that is correct. So, retailers need to make sure that they are savvy and that they continue to operate in those circumstances.

As a business, we look at expansion. When we are looking at putting new service stations in, they are all the factors that we consider. Part of that is the existing competition and whether we could capture enough volume to sustain the costs of opening and running a site.

And just on your point—I think Mark made a great point—all the different operators have different operating bases. Some operators can operate very differently. We are obviously multi-national. We have a partner in Coles. That is a very different structure to, for example, a United CA or a Puma company-operated site. So, it is a very different dynamic across the players in the industry.

Madam CHAIR: Thank you. I think I have exhausted all the questions from the committee, including those online. Thank you for your time today. We really appreciate you giving us evidence.

Ms FOSTER: Thank you for the opportunity to participate.

The committee suspended.

FuelXpress

Madam CHAIR: Mr McKenzie, on behalf of the committee, I welcome you to this public hearing into Northern Territory fuel prices.

I welcome to give evidence to the committee via teleconference Mr Mark McKenzie, who is in Wollongong. He is the Chief Executive Officer of the Australasian Convenience and Petroleum Marketers Association.

Thank you for coming before the committee this morning. We appreciate you taking the time to speak to us and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

Mr McKenzie, I will ask you to state the capacity in which you are appearing, because it is different to the last one. If you want to make a brief opening statement on behalf of FuelXpress that would be great.

Mr McKENZIE: Thank you, Madam Chair. I am appearing now on behalf of FuelXpress, which is a discount operator that has two service stations, one in Winnellie and one in Palmerston. The one in Palmerston was opened in August last year. I suppose within the context of the conversation we had during Puma and the other hearings, what we are keen to do as a national industry body is provide a perspective from a small, independent operator that is competing in the market.

Almost all the industry participants who have provided feedback here have pointed to the fact there are very different models operating in the market. We are operating in a deeply competitive market. I draw your attention to the OPIS report I cited earlier and the fuel retail price components. I have sent a link to that report to the secretariat so you can see it for yourselves.

Madam CHAIR: Thank you.

Mr McKENZIE: The big thing for FuelXpress is that it is independent and competing with very well-resourced, bigger operators. It has the advantage—along the lines of the conversation we had before—that this operator actually purchases on the spot. It buys at the instantaneous terminal gate price, so it is akin to driving my truck up to the gate and bringing the fuel load through, so I get the advantage of being able to purchase at the current price, or yesterday's price, that was posted—the reference price we talked about before was the terminal gate price. That means I have a bit of an advantage over people like Coles Express in terms of wholesale price, because they are locked into a contract price that might be higher than I am looking at.

The downside is that I do not have the scale benefits that might be available to me as a dealer inside a bigger chain, such as a Puma operator or a company-owned operator that Coles has, so effectively my mechanism for competing is to price my fuel as keenly as possible.

I am always matching what everybody else is doing in the area. I notice some of the themes you were probing is in relation to the nature of the competition within the market. While a lot of that conversion stems from the ACCC analysis in 2014 that was released in 2015, one of the things that occurred over the last three years is a 20% growth in the number of sites in the greater Darwin and Palmerston area. That creates a fierce competition dynamic, particularly for smaller players. That is one of the reasons we are seeing a tight retailer price component. It is highlighted in earlier evidence the fact that is it lower than any other capital city in the country at the moment as far as Darwin is concerned.

It is interesting to note that the growth in service stations occurred at a time when the total population of the Darwin greater area declined. If you look at fuel consumption statistics for the country, the consumption of petrol has declined 3% year on year over that same three year period. We are seeing a smaller population, households consuming less fuel because they are taking advantage of vehicles that are more fuel efficient than they purchased a decade ago—and more of those vehicles are operating in the market—and there are more competitors. It is that confluence of social and demographic factors, technology factors in terms of improving fuel efficiency of the national vehicle fleet and the increased number of market participants that we suggest is a key component for why that market is competitive in terms of the fuel retailer price component.

The broader issues we probed before have more to do with the wholesale cost and the fact that that cost is being advertised across infrastructure for what effectively, by national standards, is a low volume market. A number of people, including the Viva presentation were talking about that issue.

Madam Chair, I will defer to other comments I made. I want to provide a perspective from a small family business operating. It is a Darwin family local who has been operating for a long time and took the step of adding a business and employing more Territorians with the Palmerston site. It is operating in a challenging environment at the moment.

Madam CHAIR: I am glad we have you back, Mr McKenzie. Throughout COVID-19 we saw a lot of businesses with a downturn do other things, but not necessarily put up their prices if you are essential. We are hearing that they are able to take more out of that area in order to keep afloat. Are you able to articulate—it does not seem like the fuel industry has done that, it just literally passed on the extra cost to the consumer. Other have closed down particular outlets and we heard plenty of evidence today to say that a lot of major outlets are company-controlled—so they could have closed a few over this period rather than decrease volumes and have everyone take a bit less, therefore keeping the price higher.
Do you have commentary about that? It seems that other businesses took some of the whack themselves

Mr McKENZIE: It is a valid point. The first point that I would say is that we have not increased our prices; our prices went down. As I indicated in earlier commentary provided …

Madam CHAIR: Sorry, can I qualify that? Rather than increased prices—we have seen that profit margin get higher. The differential increased. That is where I was coming from.

Mr McKENZIE: The profit margin has not increased, the unit cost of retailing fuel increased. That is a really important point to note because if I have a business with fixed costs and those fixed costs give me a small profit margin for three-and-a-half million litres of fuel per year and am now selling 1.7 million litres of fuel per year, but I am still employing the same number of people, still paying the rent and the same electricity. That means the unit cost per litre of fuel sold goes up.

One of the things we have seen across the country that has occurred in the Territory as well is our industry is unusual because we have seen a complete cavitation in oil prices and wholesale prices have gone down low. If that was all to be passed through to the consumer then businesses would not have been viable. We would have seen local communities—you talk about closure and the consequences of closure. We get much more fierce criticism as an industry when a service station closes and people have to travel 80, 100, 150 kilometres more to get fuel.

The argument always comes back to me, as the CEO, saying, ‘Why did you not tell us?’ The issue goes back to my earlier testimony that we are interesting—it is a free market dynamic in which we operate, but the consequences of the business closing are a little different to a café or a retail store that just closes its doors. It effectively means that fuel is not available in an area. In a place like the Northern Territory where the density of service stations is very low, that means a community will lose fuel. For us, as an industry, it is a last resort issue.

We have had a lot of businesses, to be able to pass through and remain competitive. Where there is a very strong competitive intention, we have seen that businesses have reduced the number of hours they operate. They have moved from a 24/7 operation to 18 or 12. We have seen that particularly in regional areas of the east coast—New South Wales, Victoria and Queensland—where the fall has been so dramatic that the only way the business has been able to be viable—even after JobKeeper and the assistance of banks has been provided—is to set aside their casual staff and reduce their operations.

In our industry, because we have the benefit of lower wholesale costs coming through—albeit that it does not allow us to continue to operate with the unit costs we might have had—we are capturing some of that benefit. But I would not want anyone here to believe—because it is clearly highlighted in the evidence that has been provided by a number of players here that effectively it is about survival. If the proposition is, ‘You should have passed it all through and closed your site’, well, we contend that we would get more backlash from that than we will from a bit of noise about petrol prices not all coming through.

For us, it is a dual responsibility in making sure fuel is actually available and that it is available at the best possible price.

Megan from Viva talked to you about the competitive dynamics. If I am sitting in an area like Alice Springs where I have 12 or 13 sites, one service station going broke is not really a problem because, effectively, it is picked up by the other 11. But over time, if more and more of those fall out—particularly those that create a tension in the market like these least cost operators—then ultimately, over time, the average price goes up. Equally, in areas where you are very sparse in the number of service stations that are available, then effectively it means that communities lose fuel.

I would not want, for any minute, for this committee to not appreciate the fact that we have service station businesses that are under extreme hardship, even with the margins they are operating with now. I personally intervened for nine of our member businesses, direct with CEOs of the big four banks—Matt Conlon at Commonwealth Bank, Shane Elliott with ANZ—to support applications that are being made for that business to continue to survive. In a lot of cases, those sites are the sole operator or employer in those smaller townships.

Within that context, there is a balance between saying, 'I have a mechanism by which I can remain viable and still pass the lower prices through to consumers'. Most of the argument has been, not that prices are not increasing, but that they are not decreasing fast enough. Our argument is to say, in a low volume market that is sparsely spread, the reason for that is those businesses are on the cusp of survival or not surviving.

Mr MILLS: Mark—is it all right?

Madam CHAIR: You are right.

Mr MILLS: Mr McKenzie, it is Terry Mills, Member for Blain. I would like to better understand a smaller operator going out to secure spot prices, as opposed to a larger operator that purchases in bulk. Is that similar to, say, Coles or Woolworths supplying groceries as opposed to a corner store? If that is the case, how then can they remain competitive if they are just dealing with the spot price and do not have the advantage of bulk purchase?

Mr McKENZIE: That is a good question. As you quite rightly talked about, we do sell groceries as well as fuel, so we have fuel and non-fuel components, and the mix between those revenues will increase our capacity. We sell a lot more non-fuel products, where we make a better margin, and that gives us greater capacity to discount our fuel.

What a discount operator tends to do is try to lead with its price. It does not have a brand that everyone trusts, and in a lot of cases we do not have the money to spend on the forecourt—you get those gleaming forecourts that look really good. I have heard people unfortunately refer to independent operators as having (inaudible) car port over the bowsers and a shipping container for a shop, which is a bit cruel and is certainly not the case for FuelXpress.

Our costs are actually lower and we tend to operate at sites where the rent is a little lower, so it is complements of lower business cost overall—in a lot of cases, I as the operator, or someone in my family who might be directing the business is spending more time working there. I have less direct wage costs, because I have a director as the owner of the business actually working there to keep their business competitive. But the larger gain for an independent operating at that level is not so much about P&L on fuel, it is about the capital price of the asset.

I am always trying to make sure I have as much volume as possible flowing through my service station, so it is attractive in the longer term if I ever wanted to get to a point of actually selling. It is a bit like having a house; you do renovations and make sure it is attractive. The way you make a service station attractive for a prospective sale long term is by making sure you sell a lot of fuel—a lot of volume, not necessarily at the best profit level.

That means at some point I have established a business that might be attractive to a bigger company to purchase from me that might form my retirement or a way of me building wealth because I have built up such a volume of fuel. Then they will come in and dress it up the way they do with their higher asset costs and greater investment in the site. They have the benefit of lower unit price and products, and that is how they compete.

We operate with a sense of lower business costs, generally going for cheaper, lower lease cost sites, lower footprint sites—smaller area—to keep our business costs down as far as possible. We buy on spot. The risk in buying on spot is that plays havoc with cash flow. I am having to buy my fuel load each time, unlike a contract where I generally know what the price will be for the next four or five weeks, or even the next week. Where you have volatile wholesale prices, they create havoc with the cash flow for an independent business buying on spot.

We have to keep deep personal reserves to make sure we have liquid assets to purchase a fuel load when the fuel might have gone up 10c a litre this week compared to what I was paying last week.

It is a combination of—it has been a real theme in a number of the presentations we have heard, that while we all sell the same product there are about six or seven different business models that are used, and they all have different costs of operation that flow through in the retail price component. Service stations might sell the same product but they are not all the same.

Mr MILLS: Thank you for that explanation. It still strikes me as extraordinarily risky to be purchasing at the spot price. At some point it will put you in a spot where those who have purchased in bulk at a lower price would have the advantage by volume—a quantity at a lower price. And you are out when the price has changed, having to purchase at a higher price because you are purchasing a spot price. Is that correct?

Mr McKENZIE: Yes. I heard a question from Madam Chair of Coles, who had indicated they had a purchase price—their contract price the last time they bought fuel was the tanker it came in in March. The will be stored—and volume coming through. We have had the advantage of being able to buy spot price in a falling market, which means we have been able to drag them down and force them to continue to lower their price and kept the margin low.

The disadvantage we have when prices go up is that we have less capacity to discount. That means we have a cost-reflective wholesale price that will reflect the retail price, so when prices go up we have to make a decision of whether we lose money for a period until the others catch up—and some will do that and if we have capacity to do that, we will—or put our prices up. Because we are the ones dragging the prices down, effectively that means there is a choice in terms of a competitive dynamic about whether the bigger companies continue to stay down. If we happen to be the one creating the tension in the market and our price has to go up there is a reality in terms of a free-market dynamic that the bigger companies have a decision to either stay low or come up closer to where we are.

That is why you will see the price move. That is the nature of having a market that comprises a whole lot of different businesses. There is a risk there, but generally, what happens in terms of the behaviour is, because we are the ones setting a lower price in our own little area, if we go up they will see that we can. There is no point discounting more than you need to, so you will capture on the up side.

Mr MILLS: I have it now. That is why you are pushing groceries so hard.

Mr McKENZIE: Absolutely. That has been a really good thing for us. As a service station we have found that people who are a little sensitive about going to a large store where there are lots of people—we have had some very bad news on the fuel side. But we have seen, not just in Darwin, but around the country, that more people are using service stations like a corner store because there are not a lot of people there and we can control the environment in which they shop. That has been quite a good opportunity for us.

Madam CHAIR: Mr Wood has a question.

Mr WOOD: I did not realise you sold groceries at Winnellie. I have not been there for a while.

Mr McKENZIE: Not so much at Winnellie, but more at Palmerston.

Mr WOOD: You mentioned the cost of rent and other things that affect your profitability. The government has a program under the Coronavirus stimulus package—not stimulating Coronavirus, but relief from the effects of Coronavirus—for people to apply for reductions in their electricity prices and payroll tax. Have you applied for those sorts of exemptions to help keep your costs down?

Mr McKENZIE: I have not, because I am the senior CEO of the industry body. I would have to take that offline and have a chat to Pat, who is the principal, to see if he has. As an industry association we have been writing daily updates and we welcome the relief that has been provided by governments around the country, including the Northern Territory Government. I will follow up with the principal to make sure he is aware of that.

Mr WOOD: I noticed that FuelXpress, who was generally lower over the years, is about equal now with other outlets in Palmerston. It is about 114.9c. Would that be reflective of what you were saying before that you get spot price and the others have volume? Because now there does not appear to be a difference between the independents and bigger companies. Do you know why that is the case at the moment?

Mr McKENZIE: Because we reached the tolerance for as far as we can discount. When you couple with the volume falls that occurred, we effectively reached the threshold of what we can viably do as a business in terms of further discounting. The other thing is that in recent days, we have seen the terminal gate price plateau and are starting to see low gas prices. The landed price coming out of Singapore is starting to go up again. Within that context, we have gone as far as we are prepared to discount while still keeping the business viable.

Mr WOOD: There is always a risk of being an independent I suppose. I am one of those people who reckons it is great that there are independents in the Darwin area but at the moment it does not seem to have affected the competition well. I think nearly every price in Palmerston is the same at the present time.

Mr McKENZIE: One of the things being made by myself as the CEO of ACAPMA and a number of others—because the margins, the retail price component, had been low for so long—I spoke to you about the March 2020 quarter and the December 2019 quarter—we were significantly below for the December 2019 quarter. The margins across Darwin were one-third of the five capital city average, which means there is less capacity for us to further discount. Those with bigger margins in capital cities had more room to move. What you are really hitting is the limit of tolerance in terms of our ability to pass through. We are almost getting to a point now that at the current levels, we are as mean as we possibly can get as an independent. It becomes dicey, I agree with you.

As an independent, the benefit is that you are in charge of your own destiny and do not have anyone else telling you how to run the business. A risk comes with that, particularly in this industry where service station sites costing me $4m to $4.5m before land is considered. These are significant investments in volatile markets where the price moves around a bit. You need deep pockets and, to be honest, the capacity to get some grey hair.

Mr WOOD: I will not talk about hair in my case but we are not watching one another. Thank you for that.

Mr SIEVERS: You heard me speak before about the 30% loss in Territory businesses but around Australia it is 50% to 90%. We are still paying a bigger difference here. I heard people talk about travel and storage costs but the consumer sees cheaper prices in Adelaide River and Katherine than in Darwin. Can you explain a bit of that?

Mr McKENZIE: That is a good one to pick up, particularly somewhere like Adelaide River. Adelaide River is interesting because I am not just a fuel business, I am a mixed business. I have a roadhouse there where I serve food, operate like a general store and sell fuel. If you look at the ACCC report released two weeks ago, it talked about the fact that we saw significant growth in non-fuel sales. Roadhouses are interesting because, as a regional operator, if I am making a lot more revenue from selling non-fuel goods—whether that is prepared food or groceries—it means I have to make less money on fuel.

For a typical urban service station, generally about 80% of revenue comes from fuel and 20% comes from groceries. Regional truck stops and facilities that operate like a mixed business can be as low as 60% revenue from fuel and 40% from non-fuel products. That means that in that circumstance, I get a better profit margin from non-fuel products. If I am selling more groceries and non-fuel products relative to an urban store, I have a greater capacity to sell my fuel at a lower cost. The reason I do that is because I want people to stop and buy my non-fuel products.

For a place like Adelaide River, I have a competitive price to catch people before they get to the next major city. This has been a revolution occurred in the industry across the country over the last decade. While you are seeing big investment in convenience stores in places like Darwin or Palmerston, the problem is I am competing with supermarkets that are easy to access, have a greater range and a cheaper price in the main than I charge at a service station because I am selling a lower volume of products.

In a regional area, I tend to be the local general store. In that sense, I have more revenue coming from non-fuel which means that my fuel price can be lower to attract customers. That is why there is a different, particularly between metro and regional areas.

Mr SIEVERS: In saying that, when we look at prices in Ti Tree, Tenant Creek and Alice Springs, that can be a one-stop shop but the prices are still so high.

Mr McKENZIE: Some of that has to do with the fact that I have no competitive tension. In a place like Adelaide River, I go down the road and there is a major centre where I see competition. That might become a destination on the trip. Areas that are local communities themselves with not a lot of competitors around, the competitor influence comes through. If I have no one creating tension over the top of me then I will charge what I think I have to charge to keep my business viable.

Those sites tend to be very low volume and as a result, the unit price capture I have to cover my fuel costs—we still have the same pump costs and regulatory costs. I am selling a third of the fuel that you might see for an average service station in Darwin. Because there is no one around the corner breathing down my neck, I will charge what I think is reasonable. If I find no one is driving through my forecourt, then I will come up in price.

Madam CHAIR: Thank you. I have exhausted all the questions from the committee and those online. Once again, thank you, Mr McKenzie, for your time today. We really appreciate it.

Mr McKENZIE: Thank you, Madam Chair. A pleasure.

The committee suspended.

Vopak

Madam CHAIR: On behalf of the committee, I welcome you all to this public hearing into Northern Territory fuel prices. I welcome to give evidence to the committee via videoconference: Mr Mark Haggerty, Commercial and Business Development Manager, Vopak; Mr Fulco van Geuns, Managing Director, Vopak; and Mr Paul Birch, Terminal Manager, Darwin Vopak.
Thank you for coming before the committee this morning. We appreciate you taking the time to speak to us and look forward to hearing from you today. This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

I will not get you to state your name, but when you go to speak, could you please announce, for the benefit of Hansard, who you is speaking before you start. Mr Haggerty, would you like to make a brief opening statement?

Mr VAN GEUNS: Sorry, this is Fulco van Geuns speaking, not Mr Haggerty. Could I ask that I make the opening statement, please, and that we refer to Mr Haggerty as required?

Madam CHAIR: Absolutely, no problems.

Mr VAN GEUNS: Thank you, very much. I thank the committee for presenting us with the opportunity to say a couple of words. Maybe prior to hearing and answering the questions you have for us, it is good to state that Vopak Terminal, Darwin, in the Territory is part of Vopak Australia.

Vopak, as a company, is an independent bulk liquid storage and handling company. We do not own any of the product that we store on behalf of our customers. We do not produce, nor buy, nor sell, nor trade any of the products we store. It is good to state for the record that we are a pure logistics services company and, as such, that is how we operate.

I will leave it at that brief opening statement. Please proceed.

Madam CHAIR: Mr Wood has some questions.

Mr WOOD: Good morning. Yes, Gerry Wood here. When you say just a logistics company, just so I can get an understanding of how it works. An oil tanker comes in from Singapore and unloads its fuel at Vopak—is the fuel that is stored by you already pre-bought and all you do is store it and give it to the people who have pre-bought that fuel?

Mr VAN GEUNS: The fuel that arrives at our terminals belong to our customers at the time of arrival at the terminal.

Mr WOOD: They would have bought it from the company that supplies the fuel, is that right? All you do is store it for them?

Mr VAN GEUNS: That is my assumption, yes. However, I do not have the full knowledge of how they might operate but that is my assumption.

Mr WOOD: When a truck pulls up at Vopak, who do they pay? Or who has the account for the fuel that they get from you?

Mr VAN GEUNS: The fuel at our facility belongs to our customers when it is in our facility. Who pays whom, at which point? I am not 100% sure because it is not my direct responsibility or ownership.

Mr WOOD: Who just pays for the logistic cost? Is it the company that pays you directly just to hold that fuel for them? Is that a daily or monthly thing?

Mr VAN GEUNS: Excuse me. Are you asking who pays us?

Mr WOOD: Yes. So, you hold the fuel there and I presume that you hold it on behalf of the companies so that they can access the fuel. Do they pay you on a monthly or an annual basis for the use of the tanks?

Mr VAN GEUNS: Our customers pay us on a monthly basis, based on the storage and handling contracts they have with us.

Mr WOOD: Is that on volume or that they rent a tank from you?

Mr VAN GEUNS: It is a mix of both. The pricing consists of an overall capacity-based basis as well as a variable portion.

Mr WOOD: Those fees would be negotiable, I presume, a private matter between you and the companies that you are dealing with?

Mr VAN GEUNS: Those fees are agreed in the storage and handling contracts that we have with our customers. That is correct.

Mr WOOD: They are not set in the sense that everybody is charged exactly the same?

Mr VAN GEUNS: Not everyone is charged exactly the same because there is a component linked to the amount of fuel they expect to bring in and take out of the facility. The pricing has a link to that component.

Mr WOOD: Thank you.

Mr MILLS: Fulco, it is an interesting arrangement. Do I assume that it is like you offering a warehouse facility and those who want to store goods in this warehouse pay a fee?

Mr VAN GEUNS: That is indeed a pretty good metaphor. I use the same myself when I try to explain what we do. It is indeed a form of a warehouse, be it that it is a major hazard facility with all the associated safety precautions but essentially, yes.

Mr MILLS: The logistics to and from are the responsibility of the one whose goods you are storing?

Mr VAN GEUNS: The logistics to and from are the responsibility of our customers; that is correct.

Mr MILLS: Thank you, Fulco. The last question is: We have heard from very small operators who purchase on-the-spot market. How do they work with you? Do they purchase from you or do they purchase, say, gate price somewhere else and it is delivered to you? How does that work with—I can understand with a larger operator, and you have explained the pricing component around volume—but what about a very small operator? How do they work through Vopak?

Mr VAN GEUNS: It is a very good question. The answer is that they do not work directly with us. We have no direct relationships with small purchasers of fuel in the Territory. We do not have a direct relationship with them so I am not sure exactly on what basis they purchase from whom. I think Mr. McKenzie is the appropriate person to ask.

Mr MILLS: Okay. But the fuel they purchase is stored at Vopak?

Mr VAN GEUNS: If they bring a truck to our facility then yes. I am not sure if they purchase all fuel in the Territory from Vopak, there might be other routes in but indeed everything that comes from our facility is stored by us. That is correct.

Mr MILLS: Thank you, Fulco.

Madam CHAIR: Mr Sievers.

Mr SIEVERS: Thank you, Chair. Fulco it is Tony Sievers. Over the past three years we have seen a very competitive market in the NT with fuel pricing. Since COVID-19 came into place our prices across Darwin and the NT have not dropped as much as they have in other states and jurisdictions and hence why we are here. The question I ask is, since COVID-19 have the major fuel companies renegotiated storage prices, in effect because of COVID-19 and the loss of profit that they are making? Have they and is that viable for them to do, with Vopak?

Mr VAN GEUNS: To answer the first part of your question, no they have not. The storage and handling agreements that we have with our customers like I mentioned I think a little bit earlier, they contain fixed components and variable components. The variable components they will move depending on the volumes that go through the facility. The fixed components less so. They have not re-negotiated those agreements. Whether or not it is viable for them to do so I am not in a position really to answer.

Mr SIEVERS: Thank you.

Madam CHAIR: Just wondering at a broader scale, if your pricing has changed significantly over the last 12 months.

Mr VAN GEUNS: No. Our contractual arrangements with customers they have not changed. They are long term arrangements typically 20-year arrangements. They have not changed but like I said they do dynamically change as per the agreements depending on the amount of fuel that passes through the facility.
Madam CHAIR: The real thing that changes is the volume. As the volume goes down can we make that assumption they would pay less? For COVID-19 we are hearing possibly as much as 30% drop in sales, that 30% would be 30% less out of your facility so therefore the pricing that they would be paying would be coming down, would that be fair to link those to?

Mr VAN GEUNS: Yes it would.

Madam CHAIR: Thank you. Mr Wood has a further question.

Mr WOOD: Gerry Wood again. Can you give us an indication of how much volume you would have lost since COVID-19 came in, because we have heard from all the service stations that they are down in their sales, I presume that is reflected in the amount of fuel that is either coming in or you have stored, would that be correct?

Mr VAN GEUNS: Sorry the connection interrupted a little bit. You were asking whether or not I can give an indication of the impact of COVID-19 on the flow of fuel?

Mr WOOD: That is correct.

Mr VAN GEUNS: I do not have exact figures with me at this point in time. What I know is that the first quarter - so January, February and March – was relatively as per the budgetary expectations. The month of April has seen a decline in volumes passing through the terminal. I do not know exactly the percentage decline so I would have to come back to you separately.

Mr WOOD: Would we be able to contact you and get those figures please?

Mr VAN GEUNS: Yes absolutely.

Mr WOOD: Just a general question. How many ships do you normally get coming in, in a year? And I presume they all come from Singapore?

Mr VAN GEUNS: That is a good question. I am not specifically sure if they all come from Singapore. The number of vessels on a yearly basis, perhaps I could ask Mr Mark Haggerty to give an indication of the total number of vessels per year.

Mr WOOD: Are you there Mark?

Mr HAGGERTY: Yes I am here.

Mr WOOD: We are just wondering how many vessels you have coming in, delivering fuel. I gather they may not all be coming from Singapore.

Mr HAGGERTY: There are roughly 11 to 14[1] vessels coming in a year depending on the mix of the cargo and the volume on board.

Mr WOOD: Not all fuel comes from Singapore, is that correct?

Mr HAGGERTY: A small percentage of it comes locally, mainly from the Kwinana Refinery in Perth.

Mr WOOD: If it is coming from Singapore, is it a fuel load that drops off a certain amount in Darwin and heads off somewhere else, or is it specifically for Darwin in that load?

Mr HAGGERTY: It is usually a dedicated cargo. It is what is called an MR vessel, a mid-range vessel, which would roughly have a cargo of between 50 and 60 million litres[2].

---

[1] Vopak provided a subsequent correction advising that the number of vessels per year is in the range of 50-60.
[2] Vopak provided a subsequent correction advising that typical load on board an MR vessel is around 35 million litres

Mr WOOD: Does it carry other things besides fuel, or is it specifically for fuel only?

Mr HAGGERTY: Only fuel.

Mr WOOD: Thank you.

Madam CHAIR: Thank you, gentlemen, for assisting us today. It was very interesting. If we can get that detail from you that was indicated earlier that would be fantastic. We appreciate your time today.

Mr VAN GEUNS: Thank you for giving us the opportunity.

The committee suspended.

Caltex Australia

Madam CHAIR: On behalf of the committee, I welcome everyone to this public hearing into Northern Territory fuel prices. I welcome to give evidence to the committee via videoconference, Mr Prasad Kholkute, Head of Retail Pricing with Caltex; and Mr Todd Loydell, Head of Government Affairs, Caltex.

Thank you for coming before the committee. I understand we might have only just locked you in very recently. So, we appreciate your time in coming to give evidence and we look forward to what you have to say today.

This is a formal proceeding of the committee and the protection of parliamentary privilege and obligation not to mislead the committee applies. This is a public hearing being webcast through the Assembly's website as normal practice. A transcript will be made for use by the committee and may be put on our committee's website.

If, at any time during the hearing, you are concerned that what you say should not be made public, I ask you to request that the committee go into a closed session and take your evidence in private.

Because I have already stated your names and your capacity already onto the record, I will invite Mr. Loydell to make a brief opening statement.

Mr LOYDELL: Yes. I will paint a picture of Caltex in Australia. Caltex is responsible for approximately one-third of liquid fuels supply in Australia. We supply that through 800 Caltex-owned and operated stores and 1900 branded sites.

There was about 21.1 billion litres of transport fuel sold in 2019. We supply that fuel through 19 seaboard terminals nationwide which we have access to. That includes Vopak in Darwin.

We have one refinery at Lytton which produces 6.2 billion litres.

Caltex supply approximately three million customers with over 6600 employees.

I will ask Prasad to go over some of our local figures in the Northern Territory where we are not as proportionately a big player.

Mr KHOLKUTE: Thank you for the opportunity to have this conversation with you. While Caltex is a major supplier of fuel in Australia—and we take pride in our safe, reliable and secure supply of fuel—in the Northern Territory; however, we are a very small market participant.

In Caltex retail pricing, we do pricing for only three sites in the entire Northern Territory. We have one more site that we do pricing for but that is an unmanned diesel truck spot. So, as far as petrol is concerned, Caltex sets prices only at three sites.

There are quite a lot of sites that have Caltex on the canopy. They are branded as Caltex. Nine of them are Woolworths Caltex sites, which is now taken over by a group called Euro Garages. The pricing at those sites is set by the Euro Garages company. Then there are six sites that have Caltex forecourts and canopies but those are resellers or distributor sites, and the pricing at those sites is set by those resellers and distributors, independently.

That leaves Caltex with only three sites that we do pricing for.

Madam CHAIR: Gentlemen, are you both happy to take questions now? Or is there anything you would like to add to kick off?

Mr KHOLKUTE: The one thing I would like to add is regarding the notice of this hearing on Friday. Todd and I are here. My expertise comes from my domain, and my area of ownership comes from retail fuel pricing. I was on the call during the Vopak questions, and I gathered that a lot of the line of questioning was on the supply side of business. That does not fall within my purview, so there could be some questions on the supply side that I will not be able to answer, but to the extent that we can help you, we are happy to take those questions and get back to you later.

Madam CHAIR: I appreciate that. If something like that comes up, perhaps we could give you that question in writing afterwards—on notice—and you can get back to the committee if you seek out someone with the right expertise after that. Is that acceptable?

Mr WOOD: That just took away all my questions. I will write my questions down and send them. Thank you.

Madam CHAIR: I have a qualifying question. You indicated at the beginning in your opening statement that there are nine Woolworths Caltex now taken over by Euro Garage. Will the Caltex branding continue? Is that part of the takeover, or will we see a change in the Northern Territory?

Mr KHOLKUTE: Part of that contract is that the Caltex brand will continue. As a side note, we have announced that the Caltex company will rebrand in the latter half of this year. That will be a multiyear process, but we are very proud to rebrand to Ampol—going back to our heritage in Australia. To the extent that we rebrand to Ampol, Woolworths—our Euro Garage site—will be rebranded to Ampol as well. That is the plan.

Madam CHAIR: To add to that, we will refer to you as Caltex at the moment but will welcome Ampol when they come back. Caltex has no say in the pricing at the Euro Garage sites, just the branding, is that correct?

Mr KHOLKUTE: Absolutely right.

Mr MILLS: How do you determine the price at your three?

Mr KHOLKUTE: It is a basic question but the answer is complex. It has a lot of inputs coming from the cost of doing business, the cost of fuel, fixed costs, variable costs—there are a lot of costs such as (inaudible), labour utility. While the input cost of the fuel might change, some of the other fixed costs remain the same.

There is the cost component of business, both fixed and variable. Even within the input costs there is the angle of the benchmark in Singapore. It is called Mogas 95. That benchmark is in US dollars. To the extent of the dollar depreciating, our input cost goes up. There are quite a lot of components. To a large extent, our price is actually market-based pricing. We compete vigorously in the market and know that fuel is a price-sensitive commodity. We aim to price competitively with the local market.

Each local market has its own nuance; each site is unique. We aim to price competitively within the context of local competition.

Mr MILLS: I appreciate that. There are many factors at play. I am interested to know whether the nature of the competition between the various Caltex branded operations, the three versus the others that are branded Caltex—you are, I assume, in competition with them. Would I assume that you have some advantage? If so, what would that be?

Mr KHOLKUTE: We absolutely compete with any service station that is not operated by Caltex and that is not priced by Caltex. You are 100% right that when it comes to the fuel retail world, we compete whether they have Caltex canopy or Caltex brand or not.

And that will include that we do compete with other retailers when it comes to attracting a customer. We do compete with Euro Garages when it comes to attracting customers. I would not say that we have an advantage just because we have Caltex brand. We do not take our brand value for granted. We do not take our customers for granted. I do not know of any other industry where the price of the product is so transparently displayed right outside the facility.

We do not take it for granted and we strive to make a very competitive offer to our customers.

Mr MILLS: Thank you, Prasad. Just a curiosity. I would assume that those branded Ampol and Caltex are paying some kind of a fee for the use of that branding and that it is paid to Caltex.

Mr KHOLKUTE: I guess that is a fair statement; however, if you think about Caltex there are really two arms or sub-businesses within Caltex. There is a whole, what we call, fuel infrastructure business and then there is the retail business. Contracts with any other retailer that has Caltex branding is set by the fuel and infrastructure business whereas I happen to be in the retail business.

Mr LOYDELL: It is probably worth pointing out at this point, Caltex actually pays for the brand. Caltex is an Australian listed company. The brand may give you the impression that we are an American company. We actually pay a licence fee for access to that brand and we will be doing that until we transfer to the Ampol branding, which more closely reflects the nature of our company in Australia.

Mr MILLS: Does it also reflect the demands from Caltex in the US about using the name here?

Mr LOYDELL: Yes. The brand is owned by Chevron, which recently bought back into the market with Puma so they may decide to brand as Caltex in the future on those sites. Just to confuse everybody.

Mr SIEVERS: We hear there are a number of ships that come to Darwin and drop fuel off per year and then will either come here or go to the south of Queensland or Western Australia. Would you assume that to transport the fuel to Darwin would be cheaper than the other depots like Queensland and Western Australia? If that is the case, would you think those savings would be passes on to the consumer?

Mr LOYDELL: I saw you ask that question of somebody earlier today and we thought to get some clarification from our supply team. I can give you a broad overview. Yes, the shorter trip between Singapore and Darwin would have an effect on a cheaper price to Darwin than elsewhere. But the significance of that difference, given the volumes on a ship is smaller compared to the other side of the equation you referred to this morning is that the shipping cost offset the higher transport cost in trucks from the terminal to the sites. Just based on the volumes on the ship, the advantage will be much smaller in comparison to the disadvantage on the land transport side where the volumes are smaller in trucks.
In terms of actual percentage difference in the cost of transport, we can get back to you with some numbers on that. Perhaps just knowing that trend is enough for you.

Mr SIEVERS: There are savings to be made, but if the ship travelled on to Perth, offloaded the fuel, then transported it to Broome, it is a bit like dropping off in Darwin and then dropping it to Katherine or further down the track in the NT.

Mr LOYDELL: A lot of the cost in shipping has to do with the loading and unloading. While there are costs associated with days at sea, I am quite sure they are less significant. Adding days at sea does not add significantly to the cost compared with the cost of loading and unloading.

The advantage you are looking to work out will not be as big as you think. We can come back with some numbers so you can see the difference between transporting to Darwin versus transporting elsewhere in Australia to the effect of Darwin being a stop in a multi-stop voyage.

It is worth noting that whilst we tend to import jet and diesel to Darwin, on the gasoline side we tend to do buy-swap arrangements. Other players tend to do the importing and we have all purchased the fuel from them at that point. I think you were speaking with Viva before—often we will do a buy-swap arrangement with Viva in relation to gasoline.

Mr WOOD: This might be slightly political, Prasad, but I looked on the website at Canberra this morning, and Caltex in Fyshwick is at 99.9c. Just over the border in Queanbeyan it is 109.9c. Does that have less to do with competition or more to do with the ACT Government threatening to fix prices in the ACT? What do you think of government stepping in to control prices?

Mr KHOLKUTE: We believe in competitive markets. We do not support regulating prices. Again, it is a highly competitive commodity. We compete vigorously.

The price differences are dependent on the local competition. To give an example, there are price cycles being observed in certain metropolitan areas. Until last week, average prices in Sydney were cheaper than average prices in Canberra. But in the last couple of days the price cycle in Sydney has turned. There are quite a few service stations—all brands, not just Caltex—priced at $1.19, which is now significantly higher than Canberra.

Canberra just went from being priced higher than Sydney to being priced lower. You will see these types of local competition-driven pricing discrepancies across various regions.

Mr WOOD: Was it driven by the ACT's decision to cap the price—otherwise you would be in trouble—or was it true competition?

Mr KHOLKUTE: It is competition.

Mr LOYDELL: The site that you quoted from Fyshwick is a reseller site, not one that Prasad is responsible for setting the price for. But the Chief Minister will be keen to take credit for the lower prices. We would say those prices were heading that way anyway and for the next couple of weeks you will see a differential. We were pleased to hear when we spoke to the Chief Minister's office yesterday that they decided not to regulate at this point.
There are quite a few problems that could come about from intervening in what is a very competitive market, which we think works well, although we acknowledge the frustrations from areas like the Northern Territory, ACT and the numerous other areas we have received letters from about the higher fuel prices in regional areas than the city. That can be frustrating, but we are hoping in this next period you will see the benefits on the other side of the pricing curve.

Madam CHAIR: Todd, I will ask a couple of quick logistical questions. I am trying to qualify what you were saying before. Do you have storage with Vopak, or do you just purchase from others that have storage, given you only have three outlets?

Mr LOYDELL: My understanding is we will rent storage from Vopak specifically. I cannot tell you at exactly what point we take ownership in a buy/swap arrangement—whether we then need to use storage or not. But that is something we can come back to you about.

Madam CHAIR: Yes, I am hearing that the buy/swap arrangement is quite common in Darwin because of the capacity. When we are using a lot of fuel and are at capacity quite often. Would you find that to be true?

Mr LOYDELL: Yes.

Madam CHAIR: Yes, somebody told me that is a very efficient storage facility.

Mr KHOLKUTE: I will add to that. The buy/swap arrangement is quite common across the petroleum industry globally, and Australia is not an exception. This industry has extremely high fixed costs and can only work when you have scale. Different parts of the country and different wholesalers would have invested in that fixed cost. The other retailers buy and sell from that wholesaler, such that the scale is used.

Madam CHAIR: Do you have an estimation about what your loss might have been, or what your downturn in what has been termed volume collapse due to COVID-19 in the Northern Territory or in Darwin specifically—or across your three?

Mr KHOLKUTE: It is in the range of 30%.

Madam CHAIR: Did you make any consideration—was it so dire that you considered closing any of your outlets for a short period of time?

Mr KHOLKUTE: We always assess the viability of our business. As I said earlier, we take pride in safe and reliable supply of fuel.

As we assess the situation, as you can appreciate, a lot of our fixed cost such as utility, rental, labour cost, are quite fixed. When volume is down in the range of double-digit percentages, it puts pressure on the business.

At the moment, however, all I can say is we continue to assess the situation.

Madam CHAIR: Also, did your organisation access JobKeeper for your staffing costs?

Mr LOYDELL: It is quite a complicated story there. We have put in applications for JobKeeper for our jet fuelling business. Jet volumes are down 90% and there was a very clear impact on those businesses. Originally when JobKeeper was designed, you only had the option of applying as a whole company. Clearly, the government has responded to some of the early feedback about that.

We made some representation saying we have very different results across different parts of the company and used the example of our airport staff which we had to negotiate alternative arrangements with from an early point of view. We have been able to put forward applications for JobKeeper for those businesses.

In Queensland, we have announced we are bringing forward the normal turnaround and inspection for our refinery and doing it over a slower period of time for multiple reasons. One of them is it is difficult to have, in an ordinary circumstance, that turnaround and inspection. You would have a lot of contractors on site, so giving us extra time allowed us to do that in a way that we did not have people working shoulder to shoulder

as you normally would. Another reason is to avoid any unplanned shutdowns should COVID had gone through our staff and we assessed it would only take 10% of our specialised staff to be affected that we would have real problems running the refinery. We took that decision to shut down and do the turnaround inspection time and we will open up again when economic conditions return to normal.
We are assessing at the moment whether or not that entity as part of our company will be able to get the JobKeeper. To do that we have to demonstrate a 50% decline in revenue. It is quite difficult at that refinery because it is difficult to demonstrate a decline in revenue where you do not either own or sell any product so that company (inaudible) does not look at revenue specifically so we have been working with the federal government on alternative pathways to assess whether or not we are eligible and that is still continuing and I expect we will have to keep lobbying on that and painting the story that those staff should be eligible to apply even though we do not quite fit the tests which we acknowledge the government has had very limited time to put together.

The third one is if we look at continuing declines in revenue at the retail sites. We may also put in an application at those sites but it is far too early to say whether that is likely.

JobKeeper is certainly a feature of how we are looking to manage through this period.

Madam CHAIR: Thank you. That is a good insight. Any further questions from the committee?

Thank you, gentlemen for your openness and willingness to come before the hearing today. We appreciate your time.

The committee concluded