



Northern Ireland
Assembly

Committee for Enterprise, Trade and
Investment

OFFICIAL REPORT (Hansard)

Fuel Pricing: Asda, Northern Ireland Retail
Consortium and Tesco

17 October 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)
Mr Steven Agnew
Mr Sydney Anderson
Mr Sammy Douglas
Mr Gordon Dunne
Mr Paul Frew
Mr Fearghal McKinney
Ms Maeve McLaughlin
Mrs Sandra Overend

Witnesses:

Mr Joe McDonald	Asda
Mr Andy Peake	Asda
Mr Aodhán Connolly	Northern Ireland Retail Consortium
Mr Gary Mills	Tesco

(The Acting Chairperson [Ms Maeve McLaughlin] in the Chair)

The Acting Chairperson: You are very welcome to the meeting, folks. We have Aodhán Connolly, the director of the Northern Ireland Retail Consortium (NIRC); Andy Peake, the director of petrol at Asda; Joe McDonald, the corporate affairs manager of NI Asda; and Gary Mills, the managing director of Tesco Northern Ireland. The procedure is that you make an opening statement, after which we will open up the meeting to questions from Committee members.

Mr Aodhán Connolly (Northern Ireland Retail Consortium): Thanks very much. We are delighted to be here. First, to answer some of the claims in the Consumer Council report; secondly, to dispel some of the myths about supermarkets and fuel prices; and thirdly, of course, to answer your questions and respond to your concerns. I will start and speak for a couple of minutes. I will then pass over to Gary and Andy, as they have their own key messages for the Committee.

I will first address our response to the Consumer Council briefing on supermarket fuel pricing. On 5 September 2012, the Office of Fair Trading (OFT) investigated claims that the UK petrol and diesel sectors were not working well. Its results were published on 30 January this year. The OFT report concluded:

"on the basis of the evidence ... competition in the UK road fuels sector is working relatively effectively."

The OFT also found:

"The significant rises in petrol ... that have occurred over the past 10 years have largely been caused by higher crude oil prices and increases in taxation."

It also considered reasons that petrol and diesel are more expensive in Northern Ireland than the UK average. The report states unequivocally:

"This is ... because a greater proportion of road fuel tends to be sold through filling stations that sell lower volumes".

For example, in Great Britain, the average forecourt would sell around 4.3 million litres, whereas the Northern Ireland average volume is somewhere around 1.6 million litres. That obviously limits the ability to exploit economies of scale.

Once other factors that influence local pump prices, such as the number of competitors and the lower presence of supermarkets, are taken into account, the report concludes:

"pump prices in Northern Ireland are in line with those in other areas of the UK."

The Consumer Council report admits that the presence of supermarkets in Northern Ireland is not as widespread as it is in Great Britain. Only 7% of forecourt sites in Northern Ireland are supermarkets', as opposed to 15% in Great Britain. To put that into perspective, supermarkets account for only 36 sites out of 545 forecourts here.

(The Chairperson [Mr McGlone] in the Chair) The OFT report also concludes that supermarket fuel retailers have a "positive impact for motorists", driving competitive prices "within a defined radius". There are reasons that different areas have different prices. I have said about the volume of sales and the inability to exploit economies of scale. Other reasons are transport and logistics issues — different areas in Northern Ireland may be harder to get to than somewhere that is close to the fuel depot. There could be issues of scale where a higher density of population results in a higher demand, which would consequently drive down fuel costs. Furthermore, fuel is an area that experiences high levels of competition among providers, and that helps the consumer by providing affordable prices.

We clearly welcome the opportunity to discuss the matter further with the Committee and the Consumer Council, and to share our evidence. However, although each of our members has different commercial policies, what can be said for certain, and it is borne out by the Office of Fair Trading report, is that our members make fuel prices more competitive and give better value to consumers in Northern Ireland.

Mr Gary Mills (Tesco): Good afternoon. I am the managing director for Tesco in Northern Ireland and the Republic of Ireland. I will give a bit about my background to start. I am a retailer through and through. I started my career with Stewarts, which I am sure you will all know was acquired by Tesco in 1997. During my time with Tesco, I have been a store manager and a stores director, I spent time as the customer service director in our UK business and am now, as I said, the managing director for the business, North and South.

We have served Northern Ireland for the past 15 years. Throughout that period of significant change in the retail sector, we have had a strong record of investment. We currently have 9,000 colleagues and 51 stores, including 18 petrol stations. Every year, we spend over £520 million on sourcing local products and are committed to our continuing growth in the local supply base.

We recognise that consumers in Northern Ireland are very concerned about high road fuel prices, and we know that, in tough economic times when the cost of transport is a key part and a key percentage of the household budget, recent rises in fuel prices are putting an increasing strain on families and small business. Therefore, at Tesco, we do our very best to help customers save money through our ranges, such as Everyday Value, our regular coupons, our promotional activity and our Clubcard rewards.

With fuel, that is no exception. Our aim is to be competitive in all the locations in which we operate across Northern Ireland, and we work very hard to give our customers the best value for money across

all aspects of that fuel offer while rewarding them for their loyalty. I think that customers in Northern Ireland who buy fuel from the supermarkets, including Tesco, are getting the best deals in the market.

Aodhán just referred to the OFT report that looked at the issue of fuel pricing not so long ago. The report found that the competition in the market is working well and that supermarkets have brought lower prices. I certainly share that view. We follow the same pricing strategy in Northern Ireland as we do in the rest of the UK, and our aim is to provide customers with locally competitive prices. That means that, in common with other fuel retailers, we, too, have a variation in local pricing, although we do try to keep that to a very tight range. I think that supermarkets have brought customers substantial benefits, including consistently cheaper fuel across the market. Tesco has played a leading role in shifting consumers' expectations and broadening the customer fuel offer across all elements of price, quality, range and service, and I think that many operators have followed our lead and chosen different business models to focus solely on price. Therefore, we believe that we do have the best overall offer on fuel in the market.

Aodhán touched on the point that Tesco and supermarkets in general are a relatively small part of the overall fuel picture in Northern Ireland. However, since we opened our first petrol station in Bangor back in 1998, we have continued to listen to what customers are saying and to offer the best local price, and we have championed greater convenience, better service and innovation within that.

I am happy to take your questions today.

The Chairperson: OK. Thanks. We are constrained to 10 minutes, but you have a couple of minutes to go.

Mr Andy Peake (Asda): That is fine. Good afternoon. I am from Asda. I will give a bit of background on Asda's approach to petrol pricing. We have nine sites in Northern Ireland, out of 221 across the UK. Our company mission is to save customers money every day. What that means is that we have the lowest price for petrol week in, week out. There are no vouchers or gimmicks, just the lowest price at the pumps.

I am very conscious that fuel pricing is particularly key in Northern Ireland. We pulled together an income tracker that showed that the average household in Northern Ireland spends £36 on fuel, versus £25 in the rest of the UK. Therefore, people in Northern Ireland do spend more on fuel. There is also less discretionary income here once bills have been paid. Our latest income tracker shows that there is only £59 a week left for a typical household in Northern Ireland, versus £159 a week in the rest of the UK.

On our pricing strategy, we have a UK-wide price cap, which means that customers in Northern Ireland pay no more than those in England, Scotland and Wales. There is a maximum price cap, but we retain the flexibility to react locally if we are undercutting a particular store. We believe that that gives consumers the best of both worlds. If they fill up at Asda, they will always pay the lowest price.

All our sites across the UK currently charge 128.7p and 135.7p for fuel. They are all charging the same price currently. We are very proud to have had the lowest prices at Asda every week for the past two years, and that has been independently verified by Experian. In a recent Market Force survey, we won the title of the UK's favourite retailer for fuel. The OFT has quoted the Asda town effect, which is that prices in an area are lowered by 0.7p when we introduce fuel at one of our stores. We saw that happen recently after the new store additions in Portadown and Enniskillen.

We also provide total transparency. We have nothing to hide about our pricing strategy. If you go on to the Asda store locator on the website, you can see what our prices are in any store across the UK. This year, we launched an Asda app for smartphones that allows you to see where your nearest petrol station is and what the price of fuel is. You can also launch a satnav to get you there. That is our strategy on petrol pricing.

The Chairperson: OK. Thank you very much indeed. Sorry that I missed the earlier part of your briefing, but I had to go out and make a call.

You are right in saying that Asda's prices are on your website and appear to be consistent across the North. An issue raised with us, particularly via the Consumer Council, was the difference in pricing rates by Tesco, which we checked. Why does Tesco not put its prices on a website? Or perhaps this is why: research by the Consumer Council found that prices varied at Tesco outlets. It seemed to be

a quirky one, because the one that you may have expected to be cheaper — that is, at the Newtownabbey store, from recollection — was, in fact, dearer than in Antrim. You would imagine that fuel at the store nearest to where the fuel comes in would be, based on transportation costs, a bit cheaper, so that casts aside that logic.

Can Tesco explain why there is not a consistent pricing regime across Northern Ireland and why there is such disproportionate pricing variation between stores?

Mr Mills: As I said, the policy of Tesco is to be competitive in each locality where we trade. We believe that that is the right policy for consumers in the area. The headline price, although competitive, is not the full story of what we offer consumers. We offer Clubcard points to Tesco customers on each transaction. Those can be increased by using a Tesco credit card. In the past two years, we awarded petrol customers in Northern Ireland with £1.8 million in Clubcard vouchers.

Therefore, as well as the headline price, we believe in being competitive, but that will perhaps vary from site to site. We try to keep that to a tight gap of generally around 3p. As I say, the headline price is not the full story of the value for money that we offer on fuel. We believe that the full offer of our loyalty scheme Clubcard points and our credit card for points offer the best value for consumers.

Our policy on fuel is exactly in line with GB. The price that consumers pay at petrol stations in Northern Ireland is broadly in line with what they would pay across GB. That is our policy and strategy. I think that our consumers appreciate the value for money that we offer.

The Chairperson: Correct me if these figures are wrong, but for the week beginning 23 September 2013, Tesco charged 132.9p a litre for petrol in Bangor and 137.9p a litre in Banbridge, which is a difference of 5p a litre. For diesel, commencing 30 September 2013, Tesco was charging 136.9p a litre in Antrim and 140.9p a litre in Carrickfergus, which is a difference of 4p a litre.

The closer you move to where the fuel comes in, the dearer the fuel gets. That seems a wee bit odd. Therefore, your promotional vouchers for spending so much in the shop are not of much benefit, depending on where you live. You could have driven down the road on your way to work and got fuel cheaper, or just as cheap, without the promotional voucher as with it.

Mr Mills: Our aim is to keep the spread of prices at about 3p a litre. That was pretty clear in the recent report from the Consumer Council. It is our opinion that pricing competitively in each location means that each consumer in those locations gets the best possible deal. We believe that the overall offer, including Clubcard points, credit cards and what we offer in our fuel stations, adds to that value. The key thing for us is to get the headline price competitive, and that is what we set out to do.

The Chairperson: I am not in any way leaving Asda out. You gave a commitment that there would not be any more than 1p a litre variation right across the place, yet the Consumer Council said that there was difference of as much as 3p a litre.

Mr Peake: We try to have all the prices the same in Northern Ireland — that is our national price cap — but we do have wriggle room to respond locally if someone is undercutting us. For example, what has been happening over the past six months is that Sainsbury's in Coleraine has been discounting on its site, so we have reacted in our Coleraine site so that customers there are not being disadvantaged by —

The Chairperson: Can I provide you with the details that have been provided to us for the week beginning 5 August 2013? Asda was charging 131.7p a litre for petrol in Coleraine and 134.7p a litre in Bangor, which is a difference of 3p a litre.

For diesel, in the week beginning 22 July 2013, Asda was charging 134.7p a litre in Coleraine and 137.7p a litre in Ballyclare — a difference of 3p a litre. That seems at variance with your commitment to there being no more of a difference than 1p a litre.

Mr Peake: Typically, prices would all be the same, but there will be times when there is 3p difference.

The Chairperson: I need to labour this point, because I need clarity on it. You have given a commitment that the variation will be no more than 1p a litre, yet the facts, unless they are inaccurate —

Mr Peake: I think that was a one-off in that particular week. The worst-case scenario — it is the same across the rest of the UK — is that when cost prices are going up, we get stretched, because we do not want to move first in Coleraine. Sainsbury's in Coleraine offers a particular price, so we almost end up being held at that price at that particular store, whereas the price that we need to charge is drifting upwards. A difference of 3p is our worst-case spread across our national price band, whether that is in the rest of the UK or in Northern Ireland.

The Chairperson: Coleraine was not the problem. It was that Bangor and Ballyclare were dearer than Coleraine for petrol and diesel respectively.

Mr Peake: Coleraine would be the cheapest one, that is what I am saying. There is wriggle room down from the national price cap but not wriggle room up. Basically, we have to move Coleraine down.

The Chairperson: With the greatest respect, somebody has wriggled it up in Bangor and Ballyclare.

Mr Peake: Will you remind me what the prices were in Bangor and Ballyclare?

The Chairperson: I will give you the prices again. In the week of 5 August 2013, petrol was 131.7p a litre in Coleraine and 134.7p a litre in Bangor. That is obviously a difference of 3p a litre. For diesel, in the week beginning 22 July 2013, it was 134.7p a litre in Coleraine and 137.7p a litre in Ballyclare.

You probably know the geography of the place as well as I do, but that is a good bit away from where the diesel is coming in, so transportation costs would stand the price a wee bit on its head.

Mr Peake: It is not transportation costs; it is reacting to the local market.

The Chairperson: Sorry, I am not getting from you how your commitment as a company is to a variation of no more than 1p a litre, yet there is a variation of 3p a litre.

Mr Peake: Is that the commitment that has come through before the 1p difference? Where has that come from?

The Chairperson: It is from your company. It was contained in a price article from your company.

Mr Peake: I will explain our pricing framework. Some 80% of the time throughout the year, the prices will be exactly the same across the company. Ours is the only supermarket that does that. There will be times when we have to react on a local site. As I said, Coleraine is a site that tends to have those issues, because Sainsbury's has a wide spread, so it charges more in certain sites but discounts in Coleraine, for some reason. I do not why Sainsbury's is doing that, but we are basically reacting to that move. That is why Coleraine has been cheaper in those examples. That spread can be up to 3p, but we typically try to keep all prices the same.

Mr Connolly: As far as the industry standards are concerned, you have mentioned Tesco and Asda, and you will be talking to Sainsbury's next week.

Several times you have mentioned whether or not the transportation costs from the fuel depot to different places contribute to the price. If that was the only thing that was of concern or that drove prices, you would be quite correct to assume that somewhere like Coleraine would be more expensive than somewhere closer to Belfast. However, it is not just transportation costs that drive up the prices or keep them at a level. Each of the stores throughout Northern Ireland, or any of our members, has to stand on its own two feet. That means that each store's running costs have to be taken into consideration, and each could be different. There are petrol stations that are open 24 hours a day and others that are open for 18 hours a day. We also have to take into account the catchment areas to where fuel is being delivered. The national average for Northern Ireland is 1.6 million litres of fuel a year, but within that there are sites that are doing less than a million litres and others that are closer to two million litres. The ones that are closer to two million litres will be able to provide economies of scale that simply are not possible.

The main thing to take from this, particularly about the price differences, is that where supermarkets have opened forecourts across Northern Ireland, bearing in mind that we are only 36 out of 545 forecourts here, the one certain thing is that that has driven down prices. As far as the Consumer

Council is concerned, it is worried about the consumer. The key message for us is that when a supermarket opens up a forecourt, wherever it is, that invariably drives down the prices in that area, giving consumers better benefit.

We hear every day how much consumers are squeezed. We provide benefits for consumers by keeping food price inflation down and driving down the prices of groceries, and we do the same in the fuel market. To be honest, as far as the OFT is concerned, not only does it think that the market is working relatively effectively but that we are driving down prices in Northern Ireland.

Ms Maeve McLaughlin: I have a question for you all. There is a perception that consumers pay much more for fuel in the North of Ireland. We have been listening to the Asda representatives specifically about the cap. What I am hearing is that it is broadly in line with the price in England. Why does that perception exist? I accept what you are saying about competition, but why do consumers have such a strong perception?

Mr Peake: I can answer that question, if you like. The reality is that, on average, prices in Northern Ireland are higher, not in supermarkets but in total. That is because there is less coverage by supermarkets in Northern Ireland. Northern Ireland is at around 28% market share from supermarkets, whereas the rest of the UK is at 40%. There are fewer supermarkets in Northern Ireland, which means that prices, as an average for Northern Ireland, are higher than those in the rest of the UK. The pricing strategy for the supermarkets is the same regardless of location.

Mr Connolly: Fuel prices here are higher, and we feel it. However, one of the things that is certain is that, although we account for only 7% of sites in Northern Ireland, we account for around 27% of volume. That tells us that consumers are voting with their feet. They know where to find the best value and the best prices for fuel. That is why, although we account for only 7% of forecourts here, we have around 27% of the market share.

Mr Mills: To support that, the AA report in mid-September quoted that the average price for unleaded petrol in Northern Ireland is 138.6p. Tesco was charging 137.6p, so the supermarkets bring the average down. However, as my colleagues said, the fact that they account for only 7% of stations against the independents means that, overall, consumers in Northern Ireland will pay a higher price, but not in the supermarket stations.

Ms Maeve McLaughlin: I know that the Consumer Council's recommendation was for there to be engagement on the issue. There is almost a suggestion that that would have an impact on competition.

Mr Connolly: There are several concerns from Tesco and Asda. You will hear from Sainsbury's next week, but there are certain things that we can say straight away about the pricing policies. We stand together in the trade body, but, by the same token, we are competitors, so there are certain things that will not be in the public domain. We have engaged with the Consumer Council, and we will continue to do so. We would have preferred the Consumer Council to have engaged with us before submitting its report to the Committee, because we would have been able to answer some of the queries and the myths about fuel prices in Northern Ireland, and perhaps explain to the Consumer Council exactly why there are regional variances, just as there are in the Republic of Ireland and Great Britain. I assure the Committee that we will continue to engage with the Consumer Council. In the same way in which we are here today, if we can provide clarity and can answer some of the points that it makes, we are more than happy to do that. At the end of the day, when it comes to responsible retailers and our members, we find that you get a lot more done here in Northern Ireland with a cup of tea and a smile than you do by putting things all over the papers. We are more than happy to work with the Consumer Council.

The Chairperson: So long as the smile is to make sure that everybody is treated fairly and equitably and with transparency.

Mr Connolly: Absolutely, Chair.

The Chairperson: The Consumer Council prepared a report way back when, and we invited it here to discuss that report, but it is up to it to decide whether to consult you. We asked it for an update in anticipation of this meeting, and it may or may not consult you about that. However, that update is for the Committee, not for anyone else.

Mr Frew: Thank you very much for coming along, gentlemen. This all started with differential pricing. We know the big issues around fuel. We know how important it is to our economy and our people. We know that there is a differential in price here in Northern Ireland, and added to that is the duty and the tax and everything else that puts the price up. We can fight that at a UK level to try to bring it down. You are here today because of the differential. We had the independents in last week. They state that you have a much greater share in the Northern Ireland market than the 28% supermarket share. They say that they have proof of that, which is now going to the Office of Fair Trading. How do you counter that?

Mr Connolly: We take that 27% volume figure from the report that came out from Experian Catalyst. I have not seen the report that they have cited. I listened with some interest to the evidence that was given last week by the independent sector. All that I can say is that I will look with interest at the report when I get to see it. By the same token, just as they have questioned our figures, I would question theirs until I see proof.

Mr Frew: Competition is good for the consumer; it is negative on very few rare occasions. That said, are your prices and your systems for pricing sustainable?

Mr Peake: I will answer that from Asda's perspective. We basically run petrol as an independent business. It is the part of the Asda that I run. I have a profit-and-loss account as part of that remit. It is run as its own business, separate to the store. We make a small profit. That is the profit and loss that we work to. We run a very efficient high-volume business. We invest the returns that we make on fuel in new sites such as Portadown or other petrol stations that we have. It is a sustainable business.

Mr Mills: Tesco also runs a very high-volume low-margin business on fuel. Even when we discount with our 5p off a litre promotion, which we run four or five times a year, we are still in a positive margin position. The higher transport costs of fuel coming to Northern Ireland is something that we absorb. We do not pass it on to the consumer. We make a margin, albeit a very small one.

Mr Frew: You are making profit, albeit small. If you were just a petrol station, would that be sustainable?

Mr Mills: Yes.

Mr Frew: I will put a question to you that was put to us last week. The independents reckon that you use all the other goods in your store to supplement your activity on the petrol prices; they say that you are artificially pushing the price onto your other ware. Andy used the word "undercutting" when he talked about Sainsbury's in Coleraine, which was fascinating. You are here to grow your business, but do you see a time when you will have all the business, and the independents will be no more because of your activities?

Mr Connolly: That is a question that comes up about everything from groceries right through to DIY and fuel. The Northern Ireland Retail Consortium and our members have been engaged in everything from business improvement districts (BIDs) right through to engaging with the Consumer Council on the price of groceries and looking at our high streets. You have to remember that we have a 21st century high streets paper that advocates high streets first. We bought into all those things because, quite simply, for a healthy economy and retail sector in Northern Ireland, there has to be an eclectic mix, from the local baker right through to the large supermarkets. There has to be an eclectic mix to give Northern Ireland consumers the choice, competition and ability to get what they need and to drive the economy through jobs, the supply chain and our export market. You made it quite clear in your question that there could be those who think that we are here to just wipe the floor with everyone. We are not here to do that; we are here to provide choice, competition and an eclectic marketplace in Northern Ireland. That is what we are doing.

Mr Frew: What are your views on the Groceries Code Adjudicator? At the minute, fuel is not one of the items that she can inspect and investigate. Would you welcome fuel being part of her remit?

Mr Connolly: We are on record as saying that the Groceries Code Adjudicator was something that we had looked into in great depth. We wanted to make sure that the Groceries Code Adjudicator would not investigate things for the sake of it and would not duplicate the efforts that were already there. We said that there was not a need for legislation where procedures already exist. Since we have had those assurances and we have seen the Groceries Code Adjudicator come in, we have welcomed it.

We are willing to work with her and her team on whatever comes up. You have to remember that anything that provides certainty and clarity in the marketplace is always welcomed by our business.

The remit of the Groceries Code Adjudicator is very wide at the moment. A lot of other areas are being mooted as possibly being brought under the Groceries Code Adjudicator — everything from supply chain issues right through to fuel, as you have said today. I would err on the side of caution. Let us see how the Groceries Code Adjudicator beds in. Let us see what her first findings are and how the whole process works before we bring in any other responsibilities. A couple of years down the line, we will certainly discuss that with the Groceries Code Adjudicator.

Mr Frew: Would you oppose her taking over fuel?

Mr Connolly: It has not been mooted as a formal proposition, so it is not something that our members have decided on. I would be going outside my remit if I were to make a decision on that now.

Mr Frew: If she were to take over the remit of fuel, would the supermarkets change their practices in any shape or form?

Mr Connolly: The Groceries Code Adjudicator has the power to investigate. She also has the power to name and shame. At the end of the day, it is up to her to determine what rulings she makes. What I would say is that, if there is an investigation, we will work with her in the same way that we do when there are any investigations into what is within her remit at the moment. We will be frank, open and honest, and we will abide by her adjudication. I am sure that we would do the same if any other sectors came under her remit.

Mr Peake: To give a bit of context, petrol sits within food in Asda. I sit on the food trading floor. I have been in a food trading role for the past 10 years, and petrol is an extension of what I have done in the past. I would treat the supplier exactly the same as I would treat any food supplier. The code would make no difference to how I operate as a buyer.

Mr Dunne: Thanks very much, gentlemen. Is it true to say that the supermarkets are playing games with consumers on fuel pricing and are trying to influence footfall, as and when required? Is that a fair statement?

Mr Connolly: I do not think so. I think that is more fair to say that supermarkets are driving competitive prices in Northern Ireland, that we provide great value for money and that, where we can make savings, we pass them on to the consumer.

Mr Dunne: The independents were with us, and I think that we all have a lot of sympathy for them. I am sure that you do, too. You live quite close to a number of the independent units that have sprung up in recent years.

Mr Connolly: I certainly do.

Mr Dunne: I commend them on providing those facilities. They say that they are living on the profit from food. They are almost living on the profit from bread alone and that is all; it is not the fuel. They would argue — some of my other colleagues have made this point — that you sell fuel as a loss leader and that there is little or no profit being made on it, that all you are doing is influencing footfall in your supermarkets through fuel pricing and by playing games with vouchers, and that you are fighting a battle, playing one off against the other. Is that fair?

Mr Connolly: I will pass over to the two gentlemen to answer for their companies.

Mr Mills: The first thing, Mr Dunne, is that we would never willingly mislead customers. As I said, we strive to be competitive in the locality in which we trade. We do make a margin and a profit, and we do not sell fuel as a loss leader.

Mr Dunne: You do not?

Mr Mills: We do not.

Mr Dunne: You are absolutely clear on that?

Mr Mills: I am absolutely clear on the margins on which I operate in the business unit that I run in Northern Ireland, and I can state categorically that we run our petrol stations —

Mr Dunne: Is it run independently of the food?

Mr Mills: The margin is independent of the food.

Mr Dunne: Is it?

Mr Mills: Yes.

Mr Dunne: Can you explain, then, why petrol in Bangor, in North Down, is roughly 3p a litre cheaper than it is in Knocknagoney, on the margins of North Down, which is about 10 miles away. Why is it 3p more expensive there?

Mr Mills: As I said —

Mr Dunne: Let me finish.

Mr Mills: Sorry.

Mr Dunne: Knocknagoney is closer to the fuel depot in Belfast, which is where, we assume, the fuel comes from, so why is that the case? Is it fair to our electorate in North Down that the fuel at Knocknagoney, where people would obviously call in en route, is more expensive?

Mr Mills: There are two points to make. As I said, we compete on a local basis. We would not deem Springhill and Knocknagoney as being in the same locality. That is why we have stores in those two different areas. The cost of transporting fuel from the depot to a station has no bearing whatsoever on the price.

Mr Dunne: It has no bearing.

Mr Mills: No bearing whatsoever.

Mr Dunne: Are you sure about that?

Mr Mills: Absolutely.

Mr Dunne: Are you all sure about that? Is that the understanding?

Mr Mills: Perhaps you would let me finish. It has no bearing on the difference between the price in Springhill and the price in Knocknagoney. The reason why there may be a difference in price, as I said earlier, is that we would deem Springhill to be in one locality and Knocknagoney to be in another. Therefore, we would treat the price comparison slightly differently. Knocknagoney petrol station is our busiest in Northern Ireland.

Mr Dunne: North Down residents are likely to buy fuel there. Is that correct?

Mr Mills: From our Clubcard data, we know that customers shop between our stores throughout Belfast, and those from North Down would be no exception. The reason for the price difference between Springhill and Knocknagoney is that we would not deem those two stores to be in the same locality.

Mr Dunne: Is there any variation between the two stores in Bangor?

Mr Mills: Generally not.

Mr Dunne: Are there any other competitors in Bangor that influence the price?

Mr Mills: All competitors influence our price. We check prices on a regular basis. We look at all the supermarket —

Mr Dunne: Would Asda have an influence?

Mr Mills: Asda, Sainsbury's and the independents. We check all the fuel stations in the locality, and they all have a bearing on us being competitive.

Mr Dunne: Is it true that you are out to destroy local retailers?

Mr Connolly: I do not think that that is true whatsoever. I have said that we believe that an eclectic marketplace in Northern Ireland does the best for the consumer and the economy here. The doom and gloom —

Mr Dunne: What is it doing for the high street? What has it done for Bangor?

Mr Connolly: A particular store in Bangor backs onto Market Street and has driven footfall. What it has done in Bangor is give people choice; give them an ability to choose where they want to shop. It is not just about the prices. Our consumer culture has changed. We need to learn why the out-of-towns and edge-of towns are so successful, and replicate that on the high street. You are talking about easy access to car parking. You are talking about a move towards destination retailing — BIDs are one way of doing that — whereby, instead of getting their groceries and going home, people enjoy the amenities.

As far as your constituency is concerned, Bangor has a lot to offer, and a BID there would definitely help. What you have got is a great, eclectic mix between high street names, the independents, supermarkets and a great leisure facility, Pickie fun park. You know that, since it was —

Mr Dunne: We are talking about fuel, but go ahead.

Mr Connolly: You brought in the high street, so that is exactly where we are. You said at the start that you were worried about the independents, and your last question was whether we are trying to drive them out.

Mr Dunne: Have you any sympathy for them?

Mr Connolly: I work to represent not only our members but retail across Northern Ireland, so of course we have sympathy. If there were better ways to engage with the consumer, if disposable income here were higher, we would all be a lot better off. However, one of the things that you asked was whether we were trying to drive them out. The evidence that was given by the independents last week was pretty doom and gloom, but I point out that last year's Experian Catalist report showed that there was an increase in the number of independent retail forecourts in Northern Ireland. So it is not all doom and gloom; there is plenty of room in the marketplace for independents and the supermarkets. You must remember that we are only 36 sites out of about 545.

Mr Dunne: But you have the best sites in the Province. Planning policy has allowed that. In most places, you have greenfield out-of-town sites. You have prime sites, so, strategically, you have the best sites in the Province. As a result, you are able to suck customers in and have them fill their tanks with fuel.

Mr Connolly: There are two answers to that. The first is that we are successful because consumers vote with their feet and we are giving them good economy and competitive pricing. We cannot be penalised for being successful. The other point that I keep coming back to is that, anywhere where a supermarket opens, you will see the price of fuel drop overnight. That is because —

Mr Dunne: And the independents disappear.

Mr Connolly: No. As I said, the number of independents in Northern Ireland increased last year. What I am saying —

Mr Dunne: Right. Chairman, one issue comes to mind. The issue of the quality of fuel was brought up last week. Can you assure us that the quality of fuel provided by supermarkets at what is perceived to be a loss-leader cost is the same as that supplied by the independents, which are struggling to survive? Is that quality the same? If it is, what assurance has the customer out there? How is that managed?

The Chairperson: I will maybe supplement that, Gordon. I raised that issue last week. Anecdotally, we have people saying to us — not specific to any of your outlets — that, sometimes, in their mind, the fuel that they get from one outlet is more economical for their car than what they get at another outlet. I realise that that is all anecdotal, but my mind goes back to when I was a young lad at my father's filling station and we had the "super" and the "standard" fuel. People are looking to know, in terms of lubricants and additives and the like, that the fuel that they receive is of the good quality that they would expect.

Mr Peake: Yes. All fuel has to hit European standards, so it is effectively the same product. There are subtle differences in lubricants between brands, but it is not significant enough to make a difference to performance. That is when we talk about the standard unleaded grade or the standard diesel grade. Most of the time, the fuel comes from the same refinery. In effect, it is the same product, whether it is sold at a Shell, BP, Asda or Tesco site. A recent study on 'Fifth Gear' on Channel 5 compared the performance of the Asda standard grade against various super unleaded grades etc. It showed no noticeable difference in performance. That is a common urban myth that is perpetuated by the oil companies about why you should not use supermarket fuel.

The Chairperson: To be clear, I was not referring specifically to supermarket fuel. I have heard this stuff anecdotally about fuel from different outlets.

Mr Peake: The lubricants can be different, but everything conforms to European standards.

Mr Mills: The fuel that we sell is of the highest standards and quality. Rigorous checks are done. The fuel is from a very reputable supply base. The people who run our petrol business, just like my Asda colleagues, work tirelessly to make sure that it is of the highest standard. If you wish, Mr Chairman, I can write to you with further details and some technical facts.

The Chairperson: Yes; that would be very helpful.

Mr Mills: I will do that. I am extremely confident in it.

The Chairperson: Equally, Asda can write to us if you wish.

Mr Peake: That is fine; yes.

The Chairperson: Gordon, are you satisfied?

Mr Dunne: Yes; thanks, gentlemen.

The Chairperson: The case for North Down and its consumers has been well made.

Mr Anderson: Thank you for coming along and making your presentation. The more I listen to this debate, the more I am confused. No wonder consumers are confused by the pricing of fuel right across Northern Ireland.

Andy, before I forget, I want to touch on the Chair's last point. You talked about different lubricants, which Gary also touched on. Are there different grades of diesel that come to you at different prices because of the different lubricants used? Does a litre of petrol cost the same no matter what lubricants are used? People have told me that they are not getting the proper diesel. They tell me that there are different grades. They say that, sometimes, their car seems to run differently than at other times; is that possible?

Mr Peake: No. We have a specification that is to European standards. We have a 12-month contract with our suppliers, and that is the product.

Mr Anderson: So all diesel can be bought at the same wholesale price?

Mr Peake: I believe so.

Mr Anderson: I know that the price fluctuates at different times, but it is not because of the grade. Could less lubricant be used to give you an opportunity to buy at a lesser price?

Mr Peake: No. The grades and specifications that we use are consistent for 12 months. The price does not fluctuate because of the specification that we use.

Mr Anderson: So, the wholesalers do not give you an opportunity to buy diesel at different grades for so much a litre?

Mr Peake: It is all to European standards and specifications.

Mr Anderson: It may be to European standards, but there could be a standard, and then a better standard. Is it all the same?

Mr Peake: Yes.

Mr Anderson: Thank you for that. I want to touch on Gordon's point again. Chair, you put it very well at the start when you went through the differentials in the different areas in Northern Ireland. How much does the cost of the distribution of fuel to the point of sale impact on prices or influence your pricing policy?

Mr Mills: It does not influence it. The cost of transporting fuel to Northern Ireland is quite high. We do not pass that on in relation to our price versus the price in GB. It has a bearing on the overall price of fuel, but it does not mean that the prices in Northern Ireland are more expensive than at our GB stores.

Mr Anderson: That is in GB, Gary, but I am talking about here. Why should there be a differential of 3p a litre or more between Lisburn and Craigavon, for example? If you go even further, you will find it cheaper. Why do you end up getting cheaper petrol or diesel because the fuel has had to travel further?

Mr Mills: The cost of transporting fuel does not affect the price differential between sites. That differential is because we compete on a local basis; it is not because the fuel has had to travel further.

Mr Connolly: There are other issues such as the running costs of a particular site, the number of people who are employed, whether it is an 18-hour or 24-hour site and so on. There are transport and logistical issues depending on the individual retailer. There are also economies of scale, which are quite a big thing. As I said at the start, the average forecourt in GB sells 4.3 million litres, which allows an economy of scale to be passed on. In Northern Ireland, the average is 1.6 million litres. However, some stores will do less than 1 million litres a year, and some stores will do up to 2 million litres a year.

Your first point was that it is hard for the consumer to understand.

Mr Anderson: That is why they are confused.

Mr Connolly: Individual supermarkets have individual pricing policies, and they can answer for that themselves. As well as that, the individual forecourts have individual circumstances, whether it is running costs, how many hours they are open and the volume that they are dealing with. So, it is not just x equals y . There is a complicated equation for how each store gets to its individual price.

The main thing to remember is that, where a supermarket or one of our members opens a forecourt in Northern Ireland, the price invariably drops overnight. That is the best thing for consumers. We are offering them choice and the ability to get their fuel at a lower cost, and therefore, to save money.

Mr Anderson: We are not questioning the driving down of cost; that is to be welcomed. It is the differentials that we are all questioning.

Gary, do you have stores that hand out coupons but do not have a fuel outlet?

Mr Mills: Yes. When we run the national petrol promotion, the voucher of £5 off when you spend £50 is available in all our stores. That voucher is redeemable at the nearest petrol station. It is a national promotion that we run. Customers have told us that they find it good value for money and a good way of saving money.

Mr Anderson: It is not very beneficial to the customer if they get a coupon for 5p off every litre or whatever but have to drive 20 miles and back to make use of it. What do they save?

Mr Mills: It is certainly a better promotion for customers where we have a petrol station on site. However, that is only one part of the overall promotional package that we offer in the store. We regularly run promotions of £5 off when you spend £40, and that voucher can be spent in the main supermarket. We also run other types of promotions. The petrol promotion is only a very small part of our overall value-for-money offer.

Mr Anderson: It might be fine for someone who has a fuel outlet where they shop, but it is not beneficial for people in more rural and remote areas. Why not be like your competitors in Asda, forget the coupons system and let the consumer see the final price at the pump? Then it would be fair for everyone across the Province.

Mr Mills: We state clearly on our totem poles and in our sites how much we sell fuel for. As I said, we are very competitive in each locality. The petrol promotion is an added bonus. Over the last couple of years, as a result of those coupons —

Mr Anderson: It would be a better bonus if you took it off the price.

Mr Mills: It is an additional bonus, and our customers have told us that they appreciate that.

Mr Anderson: Finally, you are all competitors fighting to get the best for your business. Asda and Tesco are sitting apart here today, but do you ever liaise with each other on pricing?

Mr Connolly: Surely that would be price-fixing, which, under OFT guidelines, is highly illegal. Of course, we would not do that. To be honest, we talk about —

Mr Anderson: You did not talk about —

The Chairperson: You answered the question by saying that it would be illegal to do that, so it is not a place that you want to go.

I want to pick up on the last point about the display of prices, which is a legal requirement. This question is directed specifically at Tesco. In Liverpool, Norwich, Cardiff and Edinburgh, petrol and diesel prices are the exact same as here. I know that because it can be determined by looking at the website. Is there any reason why Tesco does not display that on its website?

Mr Mills: I do not have the answer, but I will find out for you.

The Chairperson: I can tell that Asda's prices are the same for those locations.

Mr Mills: We do not hide the price of our fuel. We are completely transparent. If you ring a petrol station, we will tell you the price. I do not have the answer about why we do not advertise it on the website, but I will find out for you.

Mr Peake: In fairness to Tesco, that is something that we did this year. The price of fuel changes a lot because the price of oil and the value of the pound against the dollar changes, so the cost prices are always changing. We managed to do that from a technical point of view with our IT systems. I do not think that it is straightforward to be able to show the price on a website in real time.

The Chairperson: But you are able to do it.

Mr Peake: We are.

The Chairperson: OK, thank you for that.

Mr Douglas: Apologies for missing your presentation. I had to go out to see some people. I have three questions. The first one is from a positive point of view, and the others are a bit more negative. You said that large retailers have 28% of the market share. I apologise if this was in your presentation, but how many people do you employ in Northern Ireland?

Mr Mills: Tesco employs 9,000 people in Northern Ireland.

Mr Joe McDonald (Asda): We employ 4,500 colleagues in Northern Ireland.

Mr Douglas: That is a good news story in that sense.

Mr Connolly: Added to that is the supply chain and other jobs that are sustained and created by our members being here.

Mr Douglas: Gordon mentioned Bangor, which I understand, but the other side of the coin is that a lot of people from my constituency are employed by you.

I will now ask my negative question. Last week, the chair of the independents mentioned the Australian Competition and Consumer Commission and talked about Coles and Woolworths. He said that the commission was now:

"looking at taking action to stop supermarkets discounting fuel".

What would the impact be if such action was taken against you?

Mr Peake: Asda does not offer discounts, vouchers, club cards or anything like that, so that would not make any difference at all to us.

Mr Mills: We have a standard pricing policy. The petrol promotion that we run is only one of a number of promotions throughout our stores. If we were unable to do that, it would not affect the headline price of our fuel. We would just have to find another way to replace that promotion with something else.

Mr Connolly: It would be hard to answer that directly until you see what was proposed or what changes were made. Without looking at the Australian case in detail, you can tell from the OFT report that the roads fuel sector here works relatively effectively and that supermarket fuel retailers have a positive impact on motorists. One reason why we make up 7% of sites and 27% or 28% of total volume is because consumers vote with their feet and are aware of the good value that we provide.

Mr Douglas: Aodhán, you obviously read the Hansard report of last week's Committee meeting.

Mr Connolly: I did.

Mr Douglas: The chair of the independents said that we did not have a national emergency plan for baked beans, but we have a national emergency plan for retail road fuels regarding consumer prices. What is your response to that? It is alarming.

Mr Connolly: When I managed to get through the Hansard report — it was an open and frank discussion — some things were easy to answer regarding what the independents said. The matter of 6,000 fewer forecourts than in the year 2000 is UK-wide and there was a dip UK-wide, but, last year, there was an increase in Northern Ireland.

With your indulgence, I am going to have to write to the Committee on the point about national security once I have brought our members together.

Mr Peake: I want to give a little bit of context to that. The Department of Energy and Climate Change has an action group that looks at how we protect the industry, particularly around fuel strikes by tanker drivers, so that the nation cannot be held to ransom. That involves things like drafting in the army to

deliver fuel if it was a continued strike etc. There are lots of contingency plans that the Government is involved in with leading petrol retailers on their contingency plans for things like strike action.

Mr Douglas: So Andy, are you saying that, even through this has been raised, we are not taking about this in a void? You mentioned that initiative and, to my knowledge, there are other things —

Mr Peake: There are various contingency plans in place. The DECC coordinates them.

The Chairperson: Including for food.

Mr Peake: Pass. I do not know about the food side. Sorry.

The Chairperson: Well, I would hope so. *[Laughter.]*

Mr Agnew: You may or may not wish to come back on my point. We talked about the situation in which supermarkets may or may not be driving out independents. Aodhán, you said that diversity is good for consumers and that you want that. I think that you referred to groceries. It has certainly been the case that the present dominance of supermarkets has led to a major reduction of independent retailers of fruit and veg to the point that, in Bangor and Dundonald, I can only get fruit and veg in supermarkets.

Mr Dunne: Stay away from them.

Mr Agnew: At the end of the day, you are businesses and that is none of your concern. However, I think that it is up to consumers whether we want that genuine choice or whether cheaper prices are our sole goal. Supermarkets' dominance in groceries has led to the demise of our high streets. As I said, it is a choice for consumers, and I do not think that it is necessarily your concern as businesses.

Mr Connolly: We are businesses, but by the same token, Mr Agnew, we are very aware of where we came from and where we are going to. As I said before, that is one of the reasons why we are highly involved in pushing forward the business improvement districts legislation and '21st Century High Streets'. As I said before, it is not about having high streets that look exactly the same as each other. One of the things that we are particularly happy about in the BIDs legislation is that BIDs look at each and every town and give them a singular focus. So, in Newry, for example, there will be a wonderful area beside the canal for cafe culture. In your constituency, you have a great mixture between the Pickie Fun Park and the different leisure facilities, restaurants and consumer cafe outlets.

It is not just about dominance. We have been clear that it is about having an eclectic retail mix that means that our high streets are used for destination retailing, while ensuring that they are as busy at 9.00 am as they are at 9.00 pm. There is no one silver bullet to do that, but, through engagement with this Committee, the Committee for Social Development and others, we are not just showing tacit support but are driving some of those things forward.

Mr Agnew: OK. Thank you.

The Chairperson: Thanks very much for that. Obviously, the Committee will deliberate on matters that it has heard today. Thank you all very much for giving your time to be here.

I want to address one matter in conclusion. Taking Mr Frew's earlier point, if the Committee was to propose that the Groceries Code Adjudicator takes on responsibility for motor fuels, would the respective companies support that?

Mr Connolly: First, that would have wider implications than just Northern Ireland. Secondly, I do not think that any of us would be in the position to make that decision today. In future, maybe a couple of years down the line when there are firm proposals about the GCA, we could possibly look at them. As I said before, the GCA is just finding its feet. We look forward to working with it and seeing its investigations and deliberations. However, that is not on our agenda at the moment.

Mr Frew: I have a quick question. Why do you think that the Consumer Council picked on you?

Mr Connolly: The Consumer Council has had this look at regional price variances in its policy documents since, I believe, 2009, so it is not a huge surprise. How quickly the report was put together and put in front of the Committee was a surprise to us, and we have talked to the Consumer Council about that. We were surprised that it was just about supermarkets, and I brought that up with the individual MLAs I spoke to and the Consumer Council. That is just because we are successful and are large, easy targets sometimes. That is not just the Consumer Council; it happens across the board. The Consumer Council looked only at supermarkets rather than the whole supply chain. I was very glad that you brought in the independents last week, and there are other people involved, including the suppliers. It is the same as you do in the Committee for Agriculture and Rural Development. You look at the complete supply chain.

The Chairperson: The piece of work was very informed and did not come to us in any great haste. It came to us in the same way as it came to everybody else. We commissioned a wee bit of extra work for it to bring us up to speed today. That is just so that you understand the process with the Consumer Council.

Mr Connolly: I am not in any way having a dig at the Consumer Council.

The Chairperson: We are not suggesting that it is picking on you either. It just does what it does for consumers.

Mr Connolly: The Consumer Council has a job to do. In the same way that it engages with us on groceries, it will engage with us on fuel prices. All that I can say is that, no matter who it is, we are very happy to engage with them.

The Chairperson: Absolutely —

Mr Frew: I have one wee question, Chair.

The Chairperson: Paul, I want to wind this up quickly.

Mr Frew: What should the Consumer Council look at with regards fuel?

The Chairperson: I think that you might have a vested interest in that. With the rigour of total impartiality, Aodhán, le do thoil.

Mr Connolly: I think that suppliers, independents and the Consumer Council should sit around a table and talk about what the problems are. As Ms McLaughlin said earlier, there are myths and perceptions that can be dispelled, and that is one of the things that we have tried to do in our response to the report. All that I can say is that we are more than willing and happy to work with the Consumer Council on this.

The Chairperson: That is grand. Thank you very much for your time. That has been very useful to us. Aodhán, I am sure that we will encounter one another in some guise or other as we pass on through the business. Go n-éirí leat. Slán go fóill.