

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 3-5 June 2008

Question: bet 97

Topic: **Senate Economics Legislation Committee Inquiry into the Price of Petrol in Australia**

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Senator Coonan asked:

Senator COONAN—... This question is also on the price of petrol. The ACCC said in its submission to the 2006 Senate Economics Legislation Committee inquiry into the price of petrol in Australia:

First, consumer welfare analysis suggests that, in general, consumers in aggregate are better off with variable prices than they are with a fixed (simple average) price. When the price is fixed, consumers have to pay that price and that price alone. However, if the price is variable around this fixed price, consumers can buy at the lower price—and they will tend to buy more at the lower price and restrict their purchases when the price is high. The opportunity to do this will tend to make consumers better off.

I was interested to know whether Treasury agrees with that view?

Mr Murphy—That is the basis of their analysis. I would have to think about it and go back and look at its more recent report. That was their view in 2006. They were then commissioned by the former Treasurer to look at all of this. The sense I get from what you are saying is that it would be less advantageous if you fix prices, is that what you are saying, from the consumers' point of view?

Senator COONAN—That is what they are saying.

Mr Murphy—I do not know. I would have to think about that in light of this report, which is more updated information.

Senator COONAN—Would you perhaps give that a more considered look?

Mr Murphy—Yes.

Senator COONAN—And give me your view?

Mr Murphy—Certainly.

Answer:

The 2007 *Report of the ACCC inquiry into the price of unleaded petrol* stated that:

“Although price cycles present opportunities for consumers to purchase petrol at relatively low prices, whether they take advantage of price cycles depends on their willingness and ability to better time their purchase. This willingness and ability to better time purchases depends intimately on consumer search costs. The search costs in turn depend heavily on both price volatility and price transparency.”

Treasury agrees with the ACCC, and notes that some of the objectives for introducing the National Fuelwatch Scheme include reducing consumer search costs and eliminating intra-day price volatility.