

CHAPTER 3

The Petrol Price Rollercoaster

Introduction

3.1 Daily and weekly fluctuations in the price of petrol cause significant bafflement to many Australians, resulting in confusion about why price cycles fluctuate so markedly. Consumers that provided submissions to the inquiry expressed great frustration at the extent of the fluctuations in the price of petrol during the course of the day or a week, describing fluctuations as great as 10 cents per litre or more depending on the location. Consumers also voiced their concerns at what they believe to be price hikes timed to coincide with public holidays and long weekends.

3.2 The NRMA described consumer sentiment towards price variations as:

...a major source of anger for consumers, who express bewilderment and feelings of being exploited when they see the retail price of petrol varying from 10 to 15 cents per litre within the space of 24 hours and even more over a seven day period.¹

3.3 The frustration conveyed to the Committee by one consumer spoke for many others in the community:

...I am frustrated and annoyed at the daily and weekly fluctuations in the prices I pay for petrol in Sydney. For example, yesterday I drove past the SOLO service station in Five Dock at 9.15am and the price of unleaded petrol was 129.9. When I next drove past at 4.30pm, it was 144.9 (a 10% increase). Two days earlier it had been 133.9. The simple task of filling up each week has become a frustrating and stressful game of cat and mouse, most days feeling ripped off and occasionally feeling like you got a bargain.²

3.4 The Motor Trades Association of Australia (MTAA) commented that price volatility also creates challenges for fuel retailers and not just consumers:

While retail price fluctuations are a matter of irritation and confusion to some motorists, they are also confusing and irritating for service station operators (for the physical changing of prices on boards and pumps and also because of the complaints from motorists that the fluctuations inevitably and understandably generate).³

3.5 This chapter examines the nature of the price cycles that consumers observe during the week, why they occur and the impact on the community. Finally, the

1 NRMA, *Submission 33*, p. 23.

2 Mr Greg Longmuir, *Submission 3*, p. 1.

3 MTAA, *Submission 28*, p. 10.

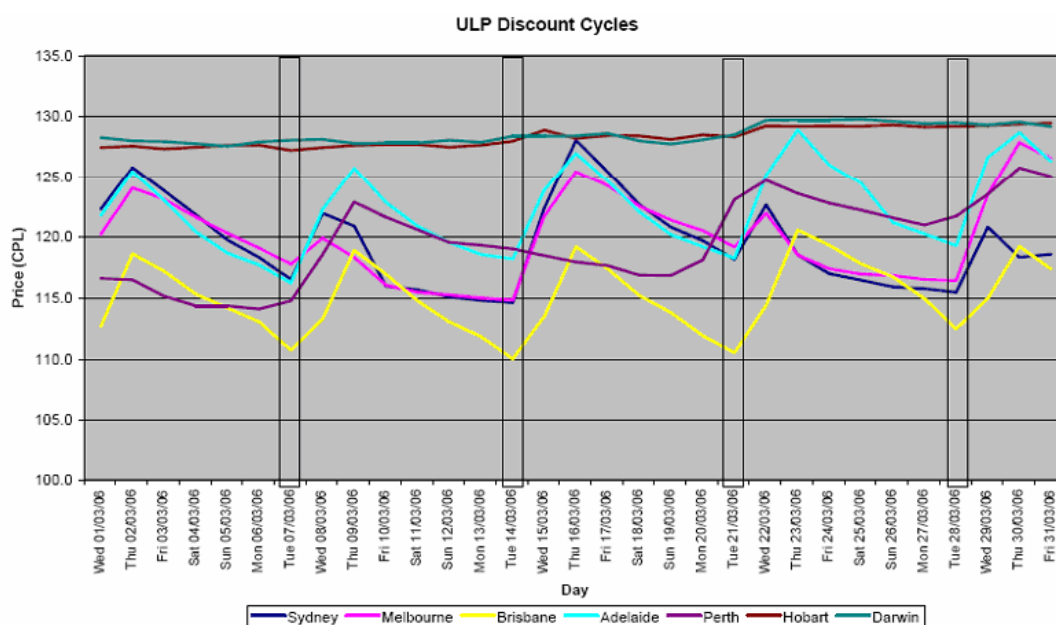
chapter considers whether the community derives benefit from the price cycles or if action should be taken to reduce fluctuations in the price of petrol.

What is the cause of petrol price cycles?

3.6 Petrol price cycles vary in intensity and duration according to the location and the number of competing fuel retailers in the area. Aggressive price cycles tend to be observed most commonly where a number of fuel retailers are competing for market share, such as along main arterial roads where fluctuations in the price of petrol can be observed throughout the day.

3.7 Volatile price cycles are apparent in major metropolitan cities and the surrounding areas, as well as in some rural centres. They tend to be regular and frequent, displaying a saw tooth pattern which suggests that prices rise and fall over a short period. This is presented in Figure 3.1.

Figure 3.1—Retail unleaded price cycles in metropolitan areas (March 2006)⁴



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3.8 Evidence to the inquiry noted the greatest variations to the price of petrol on the retail market are observed between early in the week (when daily average prices are generally at their lowest point) to late in the week when prices reach a high. According to analysis conducted by the ACCC, of the five largest metropolitan centres price cycles commonly tend to peak in Sydney, Melbourne, Brisbane and Adelaide on Thursday and reach the lowest daily average on Tuesday. In Perth prices

tend to peak on Wednesday and reach the lowest point on Sunday.⁵ The ACCC commented that regular price cycles tend not to exist in Canberra or Darwin.

3.9 This pattern of activity is attributed to a number of key factors including:

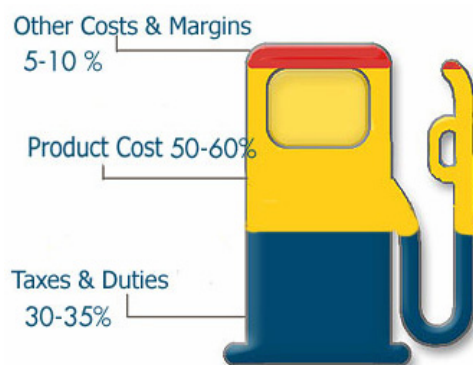
- competition between petroleum retailers for market share, including the provision of price support to some retailers by the oil companies to greater facilitate competition;
- variations in the demand for petroleum products during the week which influences retail petrol prices;
- variations in the wholesale price paid for petrol (for example, a cheaper price paid for the wholesale purchase of petrol means that retailer can engage in more aggressive competition);
- consumer behaviour whereby consumers actively seek out the cheapest price for petrol, thereby driving strong competition between retail fuel outlets for market share; and
- a stable and consistent demand for petroleum products that facilitates regular and predictable price cycles by petrol retailers.

3.10 Whilst it is clear from the discussion in Chapter 2 that the price of petrol is constrained by circumstances in the international petroleum market and tightening Australian fuel standards, competition in the market is the foremost driver of petrol prices in the retail market. The extent to which the retailer can engage in aggressive market competition to lower prices and capture a greater share of the market depends upon the ability of the retailer to secure low prices from petroleum wholesalers or distributors.

3.11 The difference between the retail price of petrol (the price paid by consumers at the pump) and the wholesale price of the fuel (the price paid by the retailer to purchase petrol from a refinery or distributor, such as the Terminal Gate Price) is referred to as the retailer's margin. Figure 3.2 outlines what is included in the price of petrol at the pump. It can be noted that margins (the oil company, distributor and retail fuel operator share) are only a very small percentage of the total price of petrol:

5 ACCC, *Submission 31*, pp 67–68.

Figure 3.2—What is included in the price of petrol?⁶



3.12 For example, the retail price of petrol of 134.1 cents per litre (cpl) could be broken down into the following components:⁷

- product: 79.5 cpl
- tax (excise and GST): 50.3 cpl
- retailer's and refiner's margins: 4.3 cpl

3.13 The retailer's margin also incorporates any additional costs to the retailer incurred during the process of obtaining fuel from a wholesaler or distributor such as freight and distribution costs whilst the price may also be affected by factors in the wholesale market which could lead to more competitive prices being secured by the retailer.

3.14 The cost of freighting the petrol from the terminal gate of the refinery to the retail fuel outlet generally increases the further away the retailer is located from the petroleum terminal or refinery. For retailers located at significant distances from a terminal, the retailer may rely on a distributor sourcing petrol from a storage depot in a regional area, thereby producing higher costs for the supply of petrol as compared to retailers which are able to source petrol directly from the terminal gate. These factors can add to the price of fuel at the pump and create considerable price differentials depending on the location of the retailer.

3.15 Business arrangements between the wholesale supplier and the retailer can be influenced by the circumstances in the wholesale market. For example, where several wholesale suppliers are present, competition between wholesalers often results in the retailer securing supply at lower prices.⁸ Contractual terms and arrangements (including any discounts for bulk purchases or price support provided by the major oil companies to the retailer) between the wholesaler and the retailer can also enhance the ability of the retailer to compete more aggressively with competitors in the retail

6 Shell Australia, *What drives petrol prices*, (accessed October 2006): <http://www.shell.com.au>

7 MTAA, *Submission 28*, p. 5.

8 ACCC, *Submission 31*, pp 33–34.

market. This is because the retailer may have paid a lower wholesale price for the petrol (so they can engage more vigorously in price wars with other retailers) or has an arrangement established with an oil company that will see any losses sustained during competitive price wars being subsidised by the oil company.

3.16 Alternatively, the retailer may have structured their business in such a way as to be able to subsidise any losses in the sale of petrol through increased sales of other goods in the business (that attract higher profit margins than petrol) such as food or beverage sales. Caltex Australia described the importance of maintaining traffic through fuel retail outlets, commenting:

If somebody finds that the traffic through their station is low, they will follow the price down of somebody who has already led the price down to get their volume back up. This is very much a low-margin, high-volume kind of business, and it is important that people bring more motorists into their stations. From the standpoint of the person who operates the station—in many cases, franchisees—the majority of their profit actually comes from what they sell in their convenience store and not what they sell at the petrol pump. So bringing the traffic in is very important to maintain overall profitability.⁹

3.17 A detailed discussion on the impact of competition and whether circumstances exist within the Australian petroleum market that could indicate anti-competitive behaviour is included in Chapter 4 – Competition or Collusion? Furthermore, a very comprehensive discussion of the causes of the price cycles is included in the ACCC report, *Reducing Fuel Price Variability*.¹⁰

Why is the public so acutely aware of petrol price cycles?

3.18 Price cycles affect the community in different ways. Petrol consumers can generally be considered as people who are either:

- acutely aware of the price of petrol and that take direct action to benefit from reduced petrol prices, such as driving across town to purchase petrol from a lower cost supplier and only buying petrol on certain days of the week;
- aware of prices but that will limit modifying their behaviours to take advantage from cheaper petrol prices, such as preferring to buy petrol early in the week where possible; and
- largely unaware of petrol prices and do not modify their behaviour in accordance with the price of petrol.¹¹

9 Mr Desmond King, Managing Director and Chief Executive Officer, Caltex Australia, *Committee Hansard*, 13 October 2006, pp 7–8.

10 ACCC, *Reducing Fuel Price Variability*, December 2001, pp 31–39, (accessed October 2006): <http://www.accc.gov.au/content/index.phtml/itemId/326657/fromItemId/326599>.

11 Mr David Moir & Mr Michael Upton, RACWA, *Committee Hansard*, 20 September 2006, p. 42.

3.19 The Royal Automobile Club of Queensland (RACQ) explained that some cross-sections of the community are far more sensitive to variations in the price cycle than others:

Obviously, there will be those in lower income groups who will probably be more sensitive to movements in petrol price than those at a higher income level. Those people in lower income groups are more likely, in the short term, to cut back their consumption and cut back discretionary driving and so on than those at a higher income level.¹²

3.20 Commentators noted that the price of petrol is highly visible to the public, with price boards at the front of retail fuel outlets providing consumers with the ability to remain cognisant of price fluctuations and to identify which retailer is offering the lowest price at a particular time. The ACCC noted that because of these factors, petrol prices are more visible to the public than are the prices of other household commodities.¹³

3.21 Unleaded petrol (ULP) is also a largely homogenous commodity. Invariably, the price boards at the front of retail fuel outlets will advertise the price of regular ULP. Although consumers may have a preference for a certain brand of petrol, the homogenous nature of the product clearly gives the price-conscious consumer the ability to select a retail fuel outlet based on the most competitive price. Therefore, retail fuel operators rely on competitive prices as the key to remaining viable in the industry.

3.22 Whilst price cycles also apply to other consumer goods, such as groceries and household consumables, the cycles generally change on a weekly basis rather than a daily basis. Prices also tend not to be displayed nearly as prominently as is the price of petrol, which can be readily identified on large price boards. There is also generally a greater public awareness of petrol prices than perhaps applies to other consumer goods. Mr Mick McMahon of Coles Express commented:

When I am at a barbecue or with friends and I say what I do, the first question is going to be something about the price of fuel...and everybody knows the price of fuel to the second decimal point. But if I say, 'Tell me about the price of milk,' in general almost no-one knows it...or the price of bread.¹⁴

3.23 Furthermore, Mr McMahon said that public sensitivity towards petrol prices and cycles is certainly understandable:

12 Mr Kenneth Willett, Executive Manager, Economic and Public Policy, RACQ, *Committee Hansard*, 23 August 2006, pp 42–43.

13 ACCC, *Submission 31*, p. 53.

14 Mr Mick McMahon, Managing Director, Coles Express, *Committee Hansard*, 27 September 2006, p. 86.

...it is such a big part of people's weekly budget, particularly when prices are very high. So I would say that in Australia people drive large distances. We put a price board on just about every corner but certainly on every location, with big letters telling people what the price is, which is not necessarily the case in all markets overseas. There is heightened media interest—I do not know why, but there certainly is. So the prices are known. There are Pricewatch segments. It is on talkback radio.¹⁵

3.24 Evidence also discussed the role of the media in creating hype around petrol price cycles, particularly around long weekends and public holidays:

I would put it down to the media in many respects. The media have a whole series of stories that are repeated time and time again, and petrol prices and holiday weekends are one of those stories which you can be sure will occur regularly. We have experienced this. We get ready for it, and we put information out—such as the sorts of things that we are discussing with you today—but, frankly, the industry is a whipping boy when it comes to this sort of thing.¹⁶

3.25 The Royal Automobile Club of Queensland (RACQ) told the Committee that media reporting on price cycles actually helps to minimise enquiries from the public:

We do hear a lot from our members but, at the times when petrol prices spike, we receive an extraordinary number of queries and requests for comment from the press. Often those requests for comment can outnumber the actual requests we hear from members on a particular day when the price has risen. I think that we would receive a lot more inquiries and comments from our members if indeed we were not commenting on a regular basis via the media—TV, radio, newspapers and so on.¹⁷

3.26 The Western Australian Commissioner for Fair Trading argued that regular media attention contributes to encouraging retailers to offer cheaper prices for petrol because it raises the profile of retailers selling petrol at a better price than their competitors.¹⁸

15 Mr Mick McMahon, Managing Director, Coles Express, *Committee Hansard*, 27 September 2006, p. 86.

16 Mr Richard Beattie, Group Manager, Corporate Affairs, Caltex Australia, *Committee Hansard*, 13 October 2006, p. 15.

17 Mr Kenneth Willett, RACQ, *Committee Hansard*, 23 August 2006, p. 42.

18 Mr Patrick Walker, Commissioner for Fair Trading, *Committee Hansard*, 20 September 2006, p. 72.

Is it true that petrol prices rise on long weekends and public holidays?

3.27 A number of submitters contended that prices tend to hit greatest heights at the onset of a long weekend, coinciding with events such as Easter, Christmas or other holidays where people are most likely to be travelling long distances in the car.¹⁹

3.28 Describing the Perth petrol market, a consumer commented that:

...it is particularly remarkable how [world oil prices and associated factors] always seem to come into play and cause sharp increases in petrol prices just before long weekends and public holiday periods in WA.²⁰

3.29 Mr Gerald Hueston, President of BP Australia responded to claims that prices increase before long weekends, stating:

Mr Hueston—Moving on to retail pricing: one of the issues that get highlighted in the media is that whenever there is a long weekend the prices tend to go up. Our argument would be that, in normal price cycles in most of the metropolitan cities, the prices tend to go up later in the week and then diminish over the weekend and the early part of the week, and then they spike back up again. So, if you have a look at that—

CHAIR—It is not just long weekends, though.

Mr Hueston—It is every weekend. The objective of showing this is: could you pick where the long weekends are? Our view is that you could not, when you look at that detail. There is nothing special about the long weekends compared with any other week in which we operate.²¹

3.30 Mr Michael Carr, an independent retail fuel owner, stated that increasing the price of petrol prior to a long weekend would have only a limited effect on profit margins for oil companies:

...more fuel is sold to industry than to the general public regardless of long weekends or not. If the fuel cycle timing was designed to take advantage of extra volume then it would always cycle up at the start of the working week.²²

3.31 Mr Richard Beattie from Caltex Australia commented that such media attention would be better directed to raising awareness about price cycles:

So I suggest that it is this constant opportunity the week before a holiday weekend for various people—and not just the media. There are certain motoring organisations whose representatives say, ‘Look what’s coming,’ but they could just as easily make the comments that we have been making

19 See for example, Mr Steve Gibbons, MP, Federal Member for Bendigo, *Submission 49*, p. 4; and NSW Government, *Submission 44*, p. 3.

20 Mrs Nola Jones, *Submission 12*, p. 1.

21 Mr Gerald Hueston, President, BP Australia, *Committee Hansard*, 27 September 2006, p. 59.

22 Mr Michael Carr, *Submission 38*, p. 2.

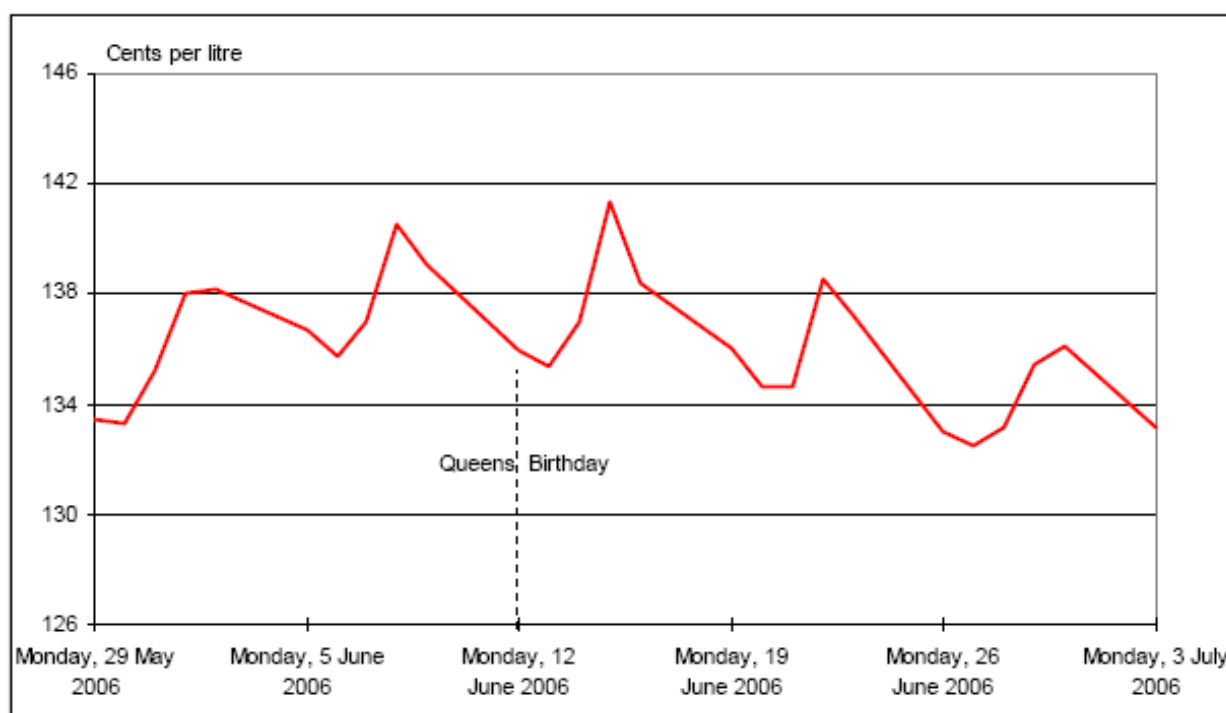
about price cycles. We are more than prepared to say to consumers, ‘Take advantage of the [price] cycle.’²³

3.32 Analysis by the ACCC of the five major metropolitan markets (Adelaide, Brisbane, Melbourne, Perth and Sydney) also did not support the hypothesis that the price of petrol is higher before public holidays when compared to non-public holidays, commenting:

There have been suggestions in the media that petrol price increases before public holidays are always higher than the price increases that occur at non-public holiday times. From [ACCC] analysis this generally is not the case for the five largest metropolitan cities.²⁴

3.33 Examining petrol price data from the 2006 Queen's Birthday long weekend (9–12 June), Figure 3.3 demonstrates that the national average petrol price did not deviate significantly from the typical price pattern for this holiday:

Figure 3.3—Retail ULP price cycle for Queen's Birthday long weekend 2006²⁵



Does the public benefit from price cycles?

3.34 The question arises as to whether the public is deriving advantage from price cycles, or are they just an unnecessary source of frustration for motorists?

23 Mr Richard Beattie, Group Manager, Corporate Affairs, Caltex Australia, *Committee Hansard*, 13 October 2006, p. 15.

24 ACCC, *Submission 31*, p. 81.

25 AIP, *Submission 50*, p. 35.

3.35 BP Australia and Caltex asserted that points in the cycle of petrol where the prices are lower coincide with the days when the greatest volume of petrol is sold, reflecting that consumers understand the price cycles and seek to benefit from cheaper prices.²⁶ Based on data from the Sydney and Melbourne markets, the ACCC report on petrol price variability found that around 60 per cent of the total volume of fuel is sold at prices which are below the average price of petrol for the cycle (such that consumers are buying on the days where petrol is at its lowest price), whilst the remaining 40 per cent of volume is sold above the average price for the cycle.²⁷

3.36 The ACCC report into reducing fuel price variability²⁸ recommended undertaking a public campaign to raise consumer awareness of the price cycles so that more people may benefit from lower prices. Consequently, the ACCC launched its petrol price website in November 2002 to provide consumers with information on taking advantage of the petrol price cycles in the five major metropolitan centres.

3.37 However, the MTAA commented that because price cycles are not observed across all areas of Australia, not all consumers are able to benefit from price cycles:

It is therefore motorists in particular locations, rather than all motorists, who benefit from price fluctuations in the retail price of petroleum.²⁹

3.38 Furthermore, price cycles are of little use to some consumers such as industries that are reliant upon the use of vehicles to sustain their businesses and cannot limit purchasing to certain days of the week:

Contractors are at the mercy of the weekly cycle of retail petrol prices. Contractors are usually in no position to take advantage of lower price days because of the sheer quantity of petrol that their vehicles consume while performing the mail service.³⁰

3.39 The Australian Taxi Industry Association noted:

The trend to volatile pricing in capital cities, especially where it is based on particular days of the week, is especially frustrating and nonsensical from the perspective of an industry such as ours that purchases fuel on a daily basis. The taxi industry has little capacity to avoid purchasing fuel on high price days.³¹

26 BP Australia Pty Ltd, *Submission 34 – Additional Information*, p. 23; and Caltex Australia, *Submission 55 – Additional Information*, p. 13.

27 ACCC, *Reducing fuel price variability*, December 2001, p. 45.

28 ACCC, *Reducing fuel price variability*, December 2001, available (accessed November 2006) at: <http://www.accc.gov.au/content/index.phtml/itemId/321896/fromItemId/653960>

29 MTAA, *Submission 28*, p. 10.

30 The Post Office Agents Association Ltd, *Submission 24*, p. 8.

31 Australian Taxi Industry Association, *Submission 27*, p. 2.

3.40 One consumer called for the mandatory introduction of a recommended retail price to be displayed by retail fuel operators to counter fluctuating petrol prices:

It may be a perception by the general public, but it is a very strong perception, that the oil companies hold the public to ransom, and no-one inclusive of the government are capable of controlling them. I would also suggest that the continuing changing of the displayed price at service stations is just another ploy by the oil companies to keep the general public in a complete state of confusion.³²

Intervening in the market—the Western Australian experience

3.41 Intervention in the Western Australian petroleum market has reportedly led to a reduction in the volatility of price cycles, at least on a daily basis. The Western Australian Government introduced the FuelWatch system in January 2001, a petrol price monitoring system to increase price transparency and pricing certainty in the WA petrol market. The system is administered under the state-based *Petroleum Products Pricing Act 1983* (the Act) and the associated regulations and orders and applies to fuel retail outlets within the FuelWatch boundaries.³³

3.42 Under the Act retail fuel outlets must notify the WA Commissioner for Fair Trading about the next day's petrol price for ULP, premium unleaded petrol, lead replacement petrol, liquefied petroleum gas (LPG), 98 RON and biodiesel blends by 2 pm on a daily basis. Subsequently the prices are publicly announced on both the FuelWatch website and via a telephone hotline after 2.30 pm. The retailer is committed to selling petrol at the notified prices for the following day. Retailers within the FuelWatch boundaries must also ensure they maintain price boards displaying the retail price of ULP, LPG and three other fuel products.

3.43 On 19 December 2002, additional measures were introduced in WA to increase price transparency in the wholesale petroleum market and to facilitate access to more competitive wholesale prices from terminals. The Terminal Gate Price (TGP) system requires that terminal operators advise the Commissioner for Fair Trading whenever the TGP is changed, as well as the components making up this price. Prices (not including individual components) are published on the FuelWatch website so retailers or distributors are able to compare wholesale petrol prices. For all purchases wholesalers must provide itemised invoices which clearly list the TGP plus any other charges included in the price such as freightage or branding. TGP information is also used by the Commissioner for Fair Trading to monitor movements against fluctuations in the international petrol pricing benchmark and average retail petrol prices for the major oil companies in Perth with terminal gate prices.³⁴

32 Mr Ted Summerson, *Submission 64*, p. 2.

33 Currently, the FuelWatch boundaries cover a total of 604 retail outlets which consist of 314 sites within the metropolitan area and 290 sites in regional areas.

34 The Australia Government's Oilcode (effective March 2007) will introduce similar notification measures relating to the TGP.

3.44 The benefits of the FuelWatch system to date were described by the Commissioner for Fair Trading, Mr Patrick Walker as:

...enabling consumers to plan their purchases and to buy at the cheapest price in their area. With information about the cheapest price being made available through FuelWatch and the media, retailers are encouraged to offer lower prices in order to gain sales.³⁵

FuelWatch has proven to be an extremely popular and useful source of fuel pricing information. Continued growth in the number of motorists using the various FuelWatch services suggests that WA consumers are planning their fuel purchases to benefit from the competitive rates being offered on any given day.³⁶

3.45 He told the Committee that metropolitan motorists reported 'saving an average of \$2 per week' through FuelWatch information, equating to a substantial saving for motorists annually, whilst petrol prices in Perth were now lower than those in Adelaide and Brisbane for a year and lower than prices in Sydney and Melbourne 'for the majority of the year'.³⁷ Furthermore:

Price hikes now occur much less frequently in WA than previously so consumers are able to benefit from lower prices for longer periods. Perth now has significantly longer price cycles than other Australian capital cities. On average ULP price hikes are occurring every 13 days in Perth compared to every seven to eight days in the eastern states capitals...³⁸

3.46 The ACCC cautioned that whilst the FuelWatch system increases transparency in petrol pricing, the 24-hour notification rule may have a negative impact on competition in the market:

There was—this is anecdotal, of course—an individual retailer in WA that just a little while ago objected to the 24-hour notification and, as I recall, posted on the site that he intended to charge \$100,000 a litre the next day for petrol because he frankly was going to work on the basis of discounting over a more regular period than 24-hour notification. The sorts of movements that we were talking about earlier today in discounting have tended, particularly where there is vigorous discounting in the price cycle occurring, to occur on a half-hourly or hourly basis. Of course, that cannot occur in Western Australia, where 24-hour notification is required before

35 Mr Patrick Walker, Commissioner for Fair Trading, *Committee Hansard*, 20 September 2006, p. 72.

36 Mr Patrick Walker, Commissioner for Fair Trading, *Committee Hansard*, 20 September 2006, p. 73.

37 Mr Patrick Walker, Commissioner for Fair Trading, *Committee Hansard*, 20 September 2006, p. 73.

38 Mr Patrick Walker, Commissioner for Fair Trading, *Committee Hansard*, 20 September 2006, p. 74.

the price can be posted. To that extent, we have concern that that 24-hour notification can have a negative impact on competition.³⁹

3.47 The proposition that the 24-hour notification rule be rolled out nationwide was met with criticism by Queensland-based independent fuel retailer, Matilda:

I find that quite scary. I have looked at that. If you went to work in the morning and found that the service station down on the next corner was a cent or two below you and you did not have the ability to come down and match that, I think that is wrong. I think I would be prepared to go to jail. I would just say, 'I'm going to drop my price and if you want to prosecute me for it, go ahead.'⁴⁰

3.48 The value of FuelWatch in lowering petrol prices was questioned by Mr Gerald Hueston, President of BP Australia:

I think what FuelWatch does is slow down the speed with which the cycle moves—both on the way down and on the way up, I would suggest. It is very difficult to untangle what is happening in a competitive sense and what is being driven by regulation. Frankly, I think it is a long bow to draw that regulation has driven lower prices.⁴¹

3.49 In addressing concerns about the 24-hour notification rule, the Royal Automobile Club of Western Australia's (RACWA), Mr David Moir stated that in addition to providing information to consumers about where they can secure the lowest petrol prices, the 24-hour rule provides consumers with confidence that the advertised price will not change over the course of the day. He also described FuelWatch as reducing the severity of price cycle fluctuations in the market:

Senator WEBBER—When we first heard from the ACCC, I asked them about our FuelWatch system. They said they thought that one of the disadvantages would be that we do not get the wild fluctuations downwards in price, but it seems to me, looking at your graph, that it protects us from some of the wild fluctuations upwards. We are probably winning more than we are losing, if you look at that graph.

Mr Moir—Yes. At any point in time, in all of the capital cities there is a wide fluctuation in prices. It depends on whether consumers choose to shop around and buy in the bottom half of the price market or whether they are just price takers. But yes, there are some wider fluctuations in Sydney, for example...⁴²

39 Mr Graeme Samuel, Chairman, ACCC, *Committee Hansard*, 3 August 2006, p. 51.

40 Mr Lawrence O'Keefe, Matilda Fuel Supplies, *Committee Hansard*, 23 August 2006, p. 8.

41 Mr Gerald Hueston, President, BP Australia, *Committee Hansard*, 27 September 2006, p. 68.

42 Senator Ruth Webber & Mr David Moir, RACWA, *Committee Hansard*, 20 September 2006, p. 36.

3.50 When asked to substantiate the claim that the FuelWatch system is the variable responsible for lowering petrol prices in the market, Western Australian Commissioner for Fair Trading, Mr Walker was unable to provide clear evidence:

CHAIR—I dare say that you have already covered this in an indirect way in your submission and that your report deals with it, but let me ask you straight out: why do you say that there is a causal relationship between the lower average price of fuel in Western Australia and the 24-hour rule?

Mr Walker—Because I can find no other explanation.⁴³

3.51 The uncertainty of FuelWatch as the variable producing lower prices was emphasised by the most recent major competitor to enter the WA market, Coles Express:

First of all, you have probably heard through your hearings that when Coles Express entered various markets, we caused quite a shake-up in the marketplace. Without seeing the data that you are referring to, I think there was quite an impact to start with when Coles Express entered [the Western Australian] marketplace. It was a marketplace that has at least one very strong independent and a number of others. It caused quite a bunfight as we competed for customers. I would struggle to differentiate what is the effect of that happening, the particular dynamics of that marketplace, versus the effects of FuelWatch. I think all FuelWatch has done is flatten the price cycle. It may be superficially attractive to regulators and so on, but I think customers lose.⁴⁴

3.52 Whilst the FuelWatch system may have asserted a positive influence on prices in the WA petrol market, the Committee notes the ACCC's concern that the 24-hour notification rule may reduce the competition in the market, and competition has been shown to lead to consumers getting a better deal. Further investigations into the variables driving petrol prices in the WA market may produce more conclusive evidence directly attributing the FuelWatch system to benefits for consumers. The Committee is unpersuaded of the benefits of the WA system, and sceptical of the (in some instances) self-serving claims about its effects in reducing prices. The Committee is concerned that, in a market characterised by an extremely high degree of price volatility—both upward and downward—the imposition of an artificial constraint upon that volatility would be counter-productive, and is just as likely to operate to arrest falls as well as rises in the petrol price.

3.53 The Committee notes that the ACCC, which is in the best position of all of the witnesses to bring an independent and fully-informed expert view to the consideration of this issue, shares its scepticism of the WA system's claimed benefits.

43 Mr Patrick Walker, Commissioner for Fair Trading, *Committee Hansard*, 20 September 2006, p. 76.

44 Mr Mick McMahon, Managing Director, Coles Express, *Committee Hansard*, 27 September 2006, p. 79.

Conclusion

3.54 Regulating petrol prices in Australia could lead to a more stable market with fewer fluctuations in the price of petrol at the pump and perhaps this would address consumer concern about price cycles. However, such intervention would interfere with competition in the market and possibly reduce the extent of market fluctuations, both at the higher *and* the lower ends of the market. This would be bad for consumers who currently benefit from purchasing petrol at the lowest points in the price cycle.

3.55 The ACCC reported that 60 per cent of petrol is purchased at the lower price points in the cycle and so it stands to reason that petroleum retailers and oil companies compensate for losses sustained by selling the remaining 40 per cent of petrol during higher points in the price cycle. Capping the price of petrol would potentially result in a situation where the price of petrol is unlikely to be as competitively priced at the low points in the cycle because the petroleum industry would have a limited capacity to recoup such losses through selling petrol at a higher price at other points in the cycle.

3.56 Whilst regulating the price of petrol would certainly lead to a flattening of the band in which the petrol prices fluctuates, this would most likely result in an overall increase in the price that consumers pay for petrol. And as argued by the ACCC, attempts to remove the price cycles would be to the detriment of consumers.⁴⁵ By understanding petrol price cycles, lower prices can be attained to the benefit of Australians and the Committee encourages greater promotion of the cycles by not only the ACCC, but also by motoring bodies within Australia which are in direct contact with the people who will benefit most from such information.

45 Mr Graeme Samuel, Chairman, ACCC, *Committee Hansard*, 19 October 2006, p. 24.

