

The Senate

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Standing Committee on Economics

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National Fuelwatch (Empowering  
Consumers) Bill 2008

National Fuelwatch (Empowering  
Consumers) (Consequential Amendments)  
Bill 2008

Interim report

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# Senate Standing Committee on Economics

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# Introduction

1.1 Wouldn't it be good to be able to take the family from Melbourne this Saturday to see Granny in Ballarat and be able to check on Friday exactly which station along the highway would have the cheapest petrol? Wouldn't it be better to be able to get a good price for petrol without having to queue up on a Tuesday night and hope you had picked the right station? And wouldn't it be better for small independent petrol retailers to have the same information about prices as the big supermarket chains so they can compete on fairer terms?

1.2 These are the benefits a national Fuelwatch scheme would offer. And its not just an economic theory. It's a model that has operated in Western Australia for years and the public there like it.

1.3 The committee is not saying that Fuelwatch will make the petrol market perfect. There is more to be done at the wholesale level. But rejecting the Fuelwatch bill will not do anything to improve the wholesale market; it will just deny consumers the chance to put more competitive pressure on the big companies selling petrol in retail markets.

1.4 The committee's final report on Fuelwatch is not due until late September. But given the public interest shown in the bill, the committee is releasing this interim report to inform the public debate.

1.5 The background and conduct of the inquiry are described in Chapter 2. The economic arguments for and against Fuelwatch are evaluated in Chapter 3. The evidence on the impact that the Fuelwatch scheme has had in Western Australia is evaluated in chapter 4. As the implications for small independent operators have been given such attention, this topic is given its own chapter.

1.6 In brief, the majority of the committee believes that a national Fuelwatch scheme should be introduced. Its detailed conclusions and recommendations will be contained in its final report.





## Background and conduct of the inquiry

2.1 Following receipt of a report by the Australian Competition and Consumer Commission (2007), the Prime Minister and the Minister for Competition Policy and Consumer Affairs announced on 15 April 2008 that a national version of the FuelWatch scheme currently operating in Western Australia would be introduced with the aim of improving price transparency for consumers in the retail petrol market. Fuelwatch is proposed to commence operating nationally on 15 December 2008. Its effectiveness will be reviewed a year later.<sup>1</sup>

2.2 The new Fuelwatch scheme will cover unleaded petrol, premium unleaded petrol, LPG, Diesel, 98 RON and biodiesel blends. It will cover metropolitan and major regional areas. The minister will have power to alter the areas covered, in light of submissions by relevant local governments. The scheme requires petrol retailers to notify the ACCC by 2 pm of their price for the next day (if it is changing) and this price must be maintained for 24 hours from 6 am. The ACCC will publish this information on a website by 4 pm. Penalties will apply to retailers who deviate from their stated prices, although some discretion will be given to the ACCC in the case of inadvertent breaches.

2.3 On 17 June 2008 the Senate referred the National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008<sup>2</sup> to the Committee for report 'not before 29 September 2008'.

2.4 The committee advertised the inquiry in the national press and invited written submissions by 7 July 2008. Details of the inquiry were placed on the committee's website and the committee also wrote to a number of organisations and stakeholder groups inviting written submissions.

2.5 The committee received 38 submissions. These are listed in Appendix 1.

2.6 Public hearings were held in Karratha (14 July 2008), Perth (16 July), Brisbane (17 July), Rockhampton (18 July), Adelaide (21 July), Sydney (1 August), Melbourne (7 August) and Canberra (11 August). No submissions were received from Tasmania or the Northern Territory but evidence was heard from Hobart and Darwin by teleconference. Witnesses appearing at these hearings are listed in Appendix 2.

2.7 The committee thanks those who participated in this inquiry.

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1 Prime Minister and Assistant Treasurer; joint press release, 15 April 2008 (some versions misdated 15 March).

2 The latter bill amends the *Trade Practices Act 1974* so that it covers Fuelwatch.



# The Economics of Fuelwatch

## Addressing information asymmetries

3.1 Petrol is a very homogeneous product. While the petrol sold by a Coles Express service station, a BP station and a Gull station may be 'branded', in many cities it all comes from the same refinery so is really an identical product. Furthermore, petrol accounts for a sufficiently large proportion of household spending that it is worthwhile trying to buy it at a good price. These factors should lead to a very competitive market as customers compare prices and buy at the cheapest outlet. This in turn should drive prices down to the level at which petrol retailers are earning just enough profit margin to stay in business.

3.2 However, this potential competition is impeded, if not thwarted, by the unusual volatility of petrol prices. There are no other non-perishable consumer goods, or services, for which prices are so volatile.<sup>1</sup>

3.3 This makes it very hard for motorists to compare prices. For example, if a consumer is told by a friend that they saw on the way to work that a particular service station had a low price, this provides little incentive to divert to that station on the way home as that station and other stations' prices are likely to have changed (perhaps a number of times) during the course of the day.

3.4 There are certainly large signs outside service stations displaying the current price at that station. But this does not tell the customer how this price compares to that being charged by rival stations at this time and by the next day it is likely to have changed. Due to the unusual volatility in petrol prices, knowing today's price is not much help in predicting what the price will be tomorrow at a given outlet and its rivals.

3.5 This volatility does more than just add 'noise' to the market. It does not affect buyers and large sellers equally. Rather there is a problem of 'information asymmetry'. The large petrol retailers subscribe to a service from a company called 'Informed Sources'. The company collects price data from 3 500 retail sites by a combination of paying people to ride around noting down prices and having their subscribers send price data to them. Informed Sources then provides its customers with information every 15 minutes about what other stations are charging. Armed with this information, the large petrol retailers have a huge advantage over consumers in the market.

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1 Prices in financial markets, such as share prices and exchange rates are also volatile, but information and transactions costs are much lower in these markets so that prices quoted from different brokers will vary very little in contrast to the large differences in prices between service stations.

3.6 This information asymmetry is likely to mean that the retail price of petrol is higher than in a more competitive market. Firstly, consider the case of a normal, reasonably competitive market. Suppose a bookseller is deciding what price to charge for a popular title in an advertisement in the weekend newspaper. He notes the book has been selling well and is thinking of increasing the price. He knows that if other booksellers follow his price increase, he will lose few sales and so profits will rise. But if none of his competitors increase their prices for the book, he may lose a lot of sales and so profits may fall. There is therefore a risk attached to deciding to increase the price of the book.<sup>2</sup>

3.7 By contrast, the information asymmetry greatly reduces this risk in the retail petrol market. A petrol retailer who puts up her price will know that her competitors will be aware of this almost immediately and she will be aware almost immediately of their response. So if the price rise is not followed it can be reversed, before consumers become aware that her price is higher than her peers, and so before there has been much loss of sales. Her rivals may well follow her lead in raising prices as they know if she changes her mind and cuts the price again, they can respond immediately.

3.8 The information asymmetry also discourages petrol stations from cutting prices. A lower price will reduce the profit on sales that would have been made anyway. Rivals will know of it immediately and may match it, removing any extra sales to the most price-conscious customers. Many other customers who might have been attracted by the lower price will be unaware of it, or unsure whether other stations have also lowered their prices.

3.9 The information asymmetry gives rise to a 'lazy competition'.<sup>3</sup> Fuelwatch will greatly reduce this information asymmetry. As stations are required to 'lock in' their prices for 24 hours, they will risk a loss of sales if they increase their price. As useful information about prices is more readily available to motorists, they will be more willing and able to shop around and buy petrol where it is cheapest, increasing the incentive for stations to cut prices. After 4 pm they will know both the current day's price and the next day's price at all their local stations. The market will become more competitive.

3.10 The above argument for the benefits from Fuelwatch was put by the Australian Competition and Consumer Commission, the state Department responsible for FuelWatch in Western Australia, independent academics and others:

By having to quote fixed fuel prices for a 24 hour period, petrol retailers will have to make better judged and more competitive choices on fuel prices.<sup>4</sup>

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2 This risk could be reduced by colluding with the other sellers to agree to all increase their prices, but this is illegal.

3 Mr Graeme Samuel, ACCC, *Proof Committee Hansard*, 7 August 2008, p.12.

4 National Roads and Motorists Association, *Submission 23*, p. 2.

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The disincentive to be the first to hike price is much greater under the 24-hour-rule. Without the rule, the price leader for a cycle knows that once its price is hiked, other firms can respond very quickly (within hours) by hiking their prices as well. If other firms do not respond quickly, the price leader can quickly retract its price hike to avoid losing much market share. However, under the 24-hour-rule, after a price leader hikes its price, other firms cannot respond within 24 hours. The price leader has to lose market share for an entire day – it cannot retract its price hike either.<sup>5</sup>

3.11 The committee does not believe opponents of the scheme ever offered a convincing rebuttal of this argument. The logic of the argument is that over time Fuelwatch will not only help those motorists using it to locate stations offering cheaper fuel, but the added stimulus to competition will push down average prices for all.

3.12 It is hard to quantify how large this impact will be. The most important factor determining the retail price of petrol will remain the wholesale price, and therefore the world price of oil and the exchange rate (with about a week's lag).<sup>6</sup> But even a reduction of a few cents per litre due to a more competitive retail market adds up to a significant saving for motorists. And unlike a cut in the excise duty, it is an amount shifted to consumers from large oil companies and retailers not from other taxpayers.

### ***Could a modified scheme achieve a similar result?***

3.13 An alternative suggested in a number of submissions was making more pricing information available but still allowing intraday price changes; 'Fuelwatch without the 24 hour rule'. The Service Station Association endorses requiring stations to notify the ACCC of their *opening* prices for the next day, but believes (at least small independent) stations should be able to *cut* (but not increase) their price during the day.<sup>7</sup>

3.14 However, such an approach would not get around the problem that consumers would not know that what they were told was the lowest price in the area would still be the lowest by the time they made their purchase. It also weakens the disincentive Fuelwatch builds in for raising prices.

3.15 For these reasons the committee believes the 24 hour rule is an integral part of the Fuelwatch scheme.

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5 Professor Wang, *Submission 27*, p. 6.

6 ACCC (2007, p. 13); Senate Standing Committee on Economics (2006, pp 5-7, 22).

7 Service Stations Association, *Submission 7*, p. 2.

## Information costs

3.16 Some opponents of Fuelwatch have either argued that it is too costly or asked why similar schemes are not being applied to other goods and services. One response is the points made above that petrol prices are unusually, almost uniquely, volatile; that the information asymmetry problem is particularly acute for petrol; and that petrol constitutes a significant amount of household budgets.

3.17 A more complete answer is to consider what signs there are that better information is desired and the most cost-effective means of providing it.

3.18 The committee heard that there is a huge demand for better information about petrol prices, from both retailers and consumers.<sup>8</sup> This is despite the large amount of resources currently being expended on collecting and distributing it.

3.19 The large petrol retailers mainly get data by buying it from 'Informed Sources', a private company that collates fuel price data. Informed Sources have not disclosed how much it costs them to gather their information or how much they charge for it, but it is clearly substantial. They stated:

it currently costs in excess of \$50k pa for each car and driver we put on the road in capital cities to collect prices six hours per day across 350 days per annum and with each vehicle covering more than 100,000 kilometres each year.<sup>9</sup>

3.20 As well as the amount retailers pay Informed Sources for the data, there are the costs involved in staff sending price information every 15 minutes to Informed Sources to provide the data sold back to them.

3.21 The small independent operators cannot afford to subscribe to the service. Instead they spend time and money driving around town checking out rival stations' prices.

3.22 Another private company, FUELtrac, also collates and sells information on petrol prices.

3.23 Consumers may collect information themselves by driving around and the extent of these search costs are often neglected in discussions of Fuelwatch:

Fuelwatch... reduces the search costs that they currently face in trying to work out where to find the cheapest petrol. Those costs include not just

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8 Among those advocating more information for consumers are the Royal Automobile Club of Tasmania, *Proof Committee Hansard*, 11 August 2008, pp 11-2; Royal Automobile Club of Victoria, *Proof Committee Hansard*, 7 August 2008, p. 48; National Roads and Motorists Association, *Proof Committee Hansard*, 1 August 2008, p. 16; Choice, *Proof Committee Hansard*, 7 August 2008, p. 61; and Royal Automobile Club of Queensland, *Proof Committee Hansard*, 17 July 2008, p. 11;

9 Informed Sources, *Submission 22a*, p.9.

time; they also include money in the form of petrol driving to places that they did not want to be.<sup>10</sup>

3.24 Alternatively consumers may use various services set up by motoring associations or local media.<sup>11</sup> For example, in Rockhampton, the local television station explained:

About 12 months ago, we got rid of the share-watch segment from our news across rural and regional Queensland and replaced it with a fuel-watch segment, which was basically designed to just inform people about fuel prices during the day...Every day in the markets of Far North Queensland—which is Cairns, Townsville, Rockhampton, the Sunshine Coast and Toowoomba—our crews, who are out all day, are basically collating prices from petrol stations in their region during the day and, of an evening, we just present that information during the news service.<sup>12</sup>

3.25 While this information is of some value to viewers in Rockhampton, where petrol prices are much less volatile than in the cities, its limitations are recognised:

The idea is really just to inform people about what the price was during the day. We present an average fuel price for the day across the market and we also present the cheapest .. it by no means predicts what is going to happen the next day. It is just telling people what the prices were during the day.<sup>13</sup>

3.26 The motorists' organisation in Tasmania explained:

The RACT has carried out fuel price monitoring, using its own resources, for around five years and has posted those fuel prices on its website—RACT.com.au—on a weekly basis on its fuel prices update page.<sup>14</sup>

3.27 It also realised the limitations of its service:

The reason the club supports a Western Australian style FuelWatch is that it provides additional information to motorists that the club cannot provide, because it cannot afford to do so on its own, using its own resources.<sup>15</sup>

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10 Mr Gordon Renouf, Choice, *Proof Committee Hansard*, 7 August 2008, p. 61.

11 The committee heard that fuel price information is posted on websites by motoring associations in New South Wales, Victoria, Queensland, South Australia and Tasmania. Of course this is a cost the motoring organisation does not incur in Western Australia, where a Fuelwatch scheme already operates. Other websites with fuel prices include one operated by a radio station in the Northern Territory; Mr Robert Bradley, Automobile Association of the Northern Territory, *Proof Committee Hansard*, 7 August 2008, p. 66.

12 Mr Stephen Marshall, WIN Television, *Proof Committee Hansard*, 18 July 2008, p. 17.

13 Mr Stephen Marshall, WIN Television, *Proof Committee Hansard*, 18 July 2008, p. 17.

14 Mr Vince Taskunas, Royal Automobile Club of Tasmania, *Proof Committee Hansard*, 11 August 2008, p. 9.

15 Mr Vince Taskunas, Royal Automobile Club of Tasmania, *Proof Committee Hansard*, 11 August 2008, p. 9.

3.28 A similar limited service is provided by the NSW motorists' organisation:

we actually do provide what I would call a limited service. We have petrol watch on our website. That provides information in the morning and the afternoon for Sydney and a post event for regional areas on the price of petrol. But we cannot give it for every site and you cannot actually track. What we can tell you is where the highest priced petrol was and where the lowest priced petrol was and what the average price is. That is not a costless exercise. It is a costly exercise.<sup>16</sup>

3.29 The Royal Automobile Club of Victoria reports that their petrol price monitoring website had received over 660,000 hits in the past year.<sup>17</sup>

3.30 Yet all these services provide is a patchy coverage of what petrol prices had been. They do not provide what is actually most useful to motorists: what petrol prices will be. This is what Fuelwatch can provide.

3.31 The administrative costs of FuelWatch comprise initial capital costs of \$1.3 million and annual operating costs of around \$4½ million.<sup>18</sup>

3.32 The compliance costs of the proposed FuelWatch scheme would be minimal, only requiring petrol stations making a daily call to a toll-free number or sending an email.<sup>19</sup>

3.33 A cost-benefit analysis of the information on petrol prices provided by Fuelwatch involves a comparison of the large resources currently being expended on a variety of different monitoring schemes (involving paying people to drive around noting down prices) that fail to provide consumers with the forward-looking information that is useful to them against the costs of a single agency collecting and distributing information (provided to them by email or telephone) which would be very useful to consumers and all retailers. It seems clear that the resources devoted to collating and dispersing petrol price information will be much less under a national Fuelwatch scheme than under the current arrangements, and the benefits it provides to consumers much greater.

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16 Mr Alan Evans, National Roads and Motorists Association, *Proof Committee Hansard*, 1 August 2008, p. 16.

17 Mr David Sullivan, RACV, phone call to Secretariat.

18 *Explanatory Memorandum*, p. 7; *Budget Paper no. 2*, p. 291 and *Estimates Hansard*, 5 June 2008, pp 42-3. This estimate of operating costs seems plausible given that the WA government currently spends \$700 000 a year operating its FuelWatch system.

19 The Australian Institute of Petroleum claims that compliance costs for service stations will average \$4,000 a year but provide no explanation for this estimate; *Submission 2a*.



## Petrol price cycles

3.34 There are regular weekly price cycles in Sydney, Melbourne, Brisbane and Adelaide. (Price fluctuations are less regular or non-existent in Canberra, Hobart, Darwin and rural areas.) Typically prices peak on Thursdays and are lowest on 'magic Tuesdays'.<sup>20</sup>

3.35 It is generally the stations affiliated with a refiner in that city that lead the price up in the cycle, when the wholesaler announces the withdrawal of price support to retailers.<sup>21</sup> However, the large petrol retailers operate sophisticated strategies which allow them to adjust prices on a localised basis.<sup>22</sup> Independent retailers used to be more aggressive discounters but this has been less common since the entry of the supermarkets with their shopper docket schemes.<sup>23</sup>

3.36 Most customers are well aware these cycles exist. Most motorists try to buy petrol when they think it is cheapest rather than just when they need it.<sup>24</sup> However motorists are limited in the extent to which they exploit their (imperfect) knowledge of the price cycles.<sup>25</sup>

3.37 One indication of the uncertainty that consumers face about price cycles is indicated by some 'urban myths' that have grown up around them. One persistent belief is that petrol prices spike more before long weekends than other weekends.<sup>26</sup>

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20 The cycles have been around a long time but with gradual changes. A South Australian select committee (2001, p. 33) found 'a pattern of high prices around Tuesday/Wednesday chasing down to low prices around Sunday/Monday'. The term 'magic Tuesday' was coined by Mr Aivars Blums, Motor Trades Association of Queensland, *Proof Committee Hansard*, 17 July 2008, p. 1.

21 ACCC (2007, pp 14 and 136).

22 ACCC (2007, p. 14).

23 ACCC (2007, p. 137).

24 The opinion poll commissioned by the ACCC in November 2007 showed that 70 per cent of motorists usually or always try to buy petrol when it is cheapest while 28 per cent just buy when they need it. The latter group includes many of the 8 per cent of customers for whom someone else (presumably mostly employers) pays for the petrol. An opinion poll conducted for the Australian Automobile Association showed that 49 per cent of motorists try to buy when petrol is cheapest, up from 41 per cent in 2005. ACCC (2007, pp 31-2).

25 An opinion poll conducted for the ACCC in November 2007 showed 74 per cent of motorists correctly nominate Tuesday as the best day to buy petrol but only 47 per cent buy petrol on Tuesdays. Only 20 per cent of petrol is sold on Tuesdays; ACCC (2007, pp 177-9, 290, 293).

26 ACCC (2007, p. 31). 68 per cent of motorists were 'extremely concerned' about this, so presumably an even larger proportion believe it happens. See also Senate Standing Committee on Economics (2006, pp 26-7).

However the ACCC's analysis shows this is not the case. Customers also overstate the extent of the cycle.<sup>27</sup>

3.38 These cycles are much more marked in Australia than in overseas retail petrol markets.<sup>28</sup> Despite extensive analysis by the ACCC, 'the causes ... are an enigma'.<sup>29</sup>

3.39 The typical observed pattern of quick price rises followed by gradual declines is consistent with the Edgeworth cycles theory where a small number of competing retailers are continuously undercutting each other by small margins in an attempt to increase market share until a substantial price rise is required to restore viability.<sup>30</sup> This theory is supported by the large petrol retailers and Informed Sources.<sup>31</sup> It does not explain why the cycle has such a regular periodicity. It is also noteworthy that it is a theory about an oligopoly, not about a perfectly competitive market.

3.40 Another possible explanation is that refineries are trying to smooth their production by adjusting (wholesale) prices to even out demand across the week and this is flowing into retail prices.<sup>32</sup> However, there is no weekly price cycle evident in wholesale prices. Furthermore, a problem with the smoothing argument is that sales tend to be higher than average on the days prices are lower,<sup>33</sup> which would imply that prices are being persistently over-cut.

3.41 The cycles are most likely a form of price discrimination. Retailers are trying to segment the market so they can sell at a higher price to those who buy petrol on a 'when needed' basis but still sell to more price conscious consumers on the Tuesdays. An analogy might be drawn with cinemas charging more for tickets on Saturdays than on Tuesdays.<sup>34</sup> However, unlike in the petrol market, cinemagoers may benefit from this as more people want to go to cinemas on Saturdays and there are capacity constraints on how many can attend. In general, price discrimination is a means of

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27 While the variation during the weekly cycle is typically 5-10 cents per litre, the average customer estimates it at 13 cents.

28 ACCC (2007, pp 162-3). An exception may be Norway, which has similar cycles; Informed Sources, *Submission 22*, p. 26.

29 ACCC (2007, p. 16). On their website, the ACCC describe the reasons for them as 'complex' and include 'possible anti-competitive practices'.

30 ACCC (2007, pp 164, 350-2). The theory was first developed in Edgeworth (1925).

31 Informed Sources, *Submission 22*, pp 24-6; and Professor Wang, *Submission 27*.

32 It may go back to when workers were predominantly paid on a Friday and would fill the car up while out shopping on a Saturday morning; Neumann Petroleum, cited in ACCC (2007, p. 174). A similar explanation is put by Informed Sources, *Submission 22*, p. 25.

33 Cited in ACCC (2007, p. 177).

34 Those on a 'date', wanting to go out with a large group of friends or not wanting a late night when working the next day may be willing to pay the higher price on a Saturday while individuals on a tight budget may prefer to buy the cheaper ticket on a Tuesday.

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increasing profits at the expense of consumers, rather than an act of altruism on the part of sellers.

3.42 The committee heard a range of views about whether the existence of cycles implies a higher or lower average price of petrol. If the cycles are the result of price discrimination, then this implies that those buying on the 'cheap' day are getting the price that would prevail generally in the absence of information asymmetries and other market imperfections. The other customers are paying more than a competitive price. Measures that make the market more competitive would then tend to reduce prices on the more expensive days but leave them unchanged on the 'cheap' days, both dampening the cycle and lowering the average price.

3.43 On the other hand, those who claim that the cycle results in a lower average price have to explain why the difference between the high and low points of the cycle appears to exceed the average margin on petrol. This implies that stations are selling at a loss at the low point of the cycle. The committee has not heard a convincing explanation as to why stations would choose to do this persistently.

### *The 'buying below the average' fallacy*

3.44 A commonly-used argument is that consumers benefit from the cycle as they buy petrol at below the average price. For example:

Discount cycles favour the consumer, with over 60% of petrol sales occurring below the average price of the price cycle...more than 60 per cent of weekly sales were made on the four days of the week (ie. Sunday, Monday, Tuesday & Wednesday) when the average daily price was below the average weekly price.<sup>35</sup>

3.45 If consumers bought petrol completely at random, then 57 per cent of sales would be made on Sunday, Monday, Tuesday and Wednesday (or whichever four days had the lowest prices). It is not clear what is so impressive about an extra, possibly insignificantly different, 3 per cent of sales occurring on these days, which is largely a function of how high is the spike on the most expensive day of the week.

3.46 If the Committee thought that the goal of the inquiry was to ensure that a large proportion of consumers paid less than the average posted price, it would probably recommend that stations be made to charge \$1,000 a litre for an hour a week, so that 100 per cent of sales are made below the weekly average price. This is absurd of course, but it illustrates the irrelevance of the proportion of sales made below the average price as a criterion.

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35 Australian Institute of Petroleum, *Submission 2a*, p. 18.

### **Intra-day price movements**

3.47 In addition to the interday movements each week, there are often intra-day price changes which make it much harder for consumers to compare prices. This variation is very unpopular with consumers, with a third even being willing to pay higher average prices if it meant no intraday volatility.<sup>36</sup> The classic example is a customer who complained that the price had risen by 15 cents while she was waiting in a queue.<sup>37</sup>

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36 44% of motorists nationwide are 'extremely concerned' about this (the national average being pulled down by Perth motorists where intra-day variation is prohibited) and 83% would prefer the same price apply all day. 63% would prefer a uniform price all day even if this meant a less predictable weekly cycle. Given a choice 33% of motorists would prefer no intraday variation and 48% would prefer a lower average price. ACCC (2007, pp 280-1, 295-6).

37 Cited by the Hon Chris Bowen, *House Hansard*, 29 May 2008, p. 3870.

# FuelWatch in Western Australia

4.1 The national Fuelwatch scheme is not just a theoretical construct. A FuelWatch scheme is already operating in Western Australia. It was introduced by a Liberal government in January 2001 in response to a parliamentary select committee report and supported by subsequent Labor governments.

4.2 The WA scheme involves daily monitoring of prices for petrol, diesel and automotive LPG within metropolitan Perth and 52 regional areas (in total covering about 80 per cent of retail outlets). The prices provided by 2 pm each day, which are posted on a website by 4 pm, must be maintained from 6 am the next day to 6 am the following day. FuelWatch also operates a personalised email service, and its information is also disseminated in the evening news on TV and in the main morning newspaper. FuelWatch allows customers to choose where to buy tomorrow, and if prices are going up gives fourteen hours to buy at today's prices.

## Opinions of FuelWatch in WA

4.3 The WA Government argues 'FuelWatch enables motorists to make informed decisions about their fuel purchases, which puts downward competitive pressure on fuel prices.'<sup>1</sup> Given the variation in petrol prices at stations across Perth, 'on average at present consumers can save between 13c and 14c for most types of fuel in Perth'.<sup>2</sup>

4.4 The Royal Automobile Club of Western Australia supports the scheme:  
we know from general community support and general use of the FuelWatch scheme, both if you like in an active way and in a passive way, that it is something that has worked well here in WA for consumers.<sup>3</sup>

4.5 Consumer surveys have shown over 90 per cent of WA motorists are aware of FuelWatch.<sup>4</sup> It is widely used:

Currently, almost 300 000 people are accessing the FuelWatch website per month. Over 32 000 are receiving personalised emails daily so they can make choices about where they buy their fuel...60 per cent of people have indicated that they actually use FuelWatch.<sup>5</sup>

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1 WA Department of Consumer and Employment Protection, *Submission 5*, p. 5.

2 Ms Anne Driscoll, WA Department of Consumer and Employment Protection, *Proof Committee Hansard*, 16 July 2008, p. 2.

3 Mr David Moir, Royal Automobile Club of Western Australia, *Proof Committee Hansard*, 16 July 2008, p. 24.

4 WA Department of Consumer and Employment Protection, *Proof Committee Hansard*, 16 July 2008, p. 5.

5 Ms Anne Driscoll, WA Department of Consumer and Employment Protection, *Proof Committee Hansard*, 16 July 2008, pp 2 and 5.

...demand for FuelWatch information from the community increases in line with increasing petrol prices.<sup>6</sup>

Because FuelWatch is available on the evening TV news, on the radio and in the newspaper on a daily basis, you are aware generally of the span of prices available tomorrow or that day. You do not have to be the concerned buyer who actively seeks the information by email or SMS or rings up on a daily basis or when you are about to buy the fuel.<sup>7</sup>

4.6 The scheme is popular with consumers in Western Australia. Consumer surveys have shown two-thirds support it.<sup>8</sup>

4.7 Some consumers were alarmed when they heard about opposition to the national Fuelwatch scheme and feared it meant that the WA FuelWatch scheme might be scrapped. They sent emails, saying:

...the FuelWatch service is invaluable!

Please ensure the service is retained...A great Government service!!

I was appalled to hear on the radio yesterday some senator saying that the WA FuelWatch scheme had not done anything to reduce petrol prices.

...I find it invaluable...<sup>9</sup>

### **Comparison of Perth fuel prices with other capitals**

4.8 In the preceding chapter, it was argued that while the primary focus of Fuelwatch is to empower consumers to find the best price, a consequence of this was to make the retail petrol market more competitive, and this would lead to lower average prices and shift prices in the rest of the week down to what was charged on 'magic Tuesdays'.

4.9 A simple comparison of Perth and Sydney prices over recent weeks suggests this is exactly what has happened (Chart 4.1). The weekly cycle in petrol prices has disappeared in Perth, although it took several years for this to happen. (There had been an intermediate period when Perth moved from a weekly cycle like that in other capitals to a smaller fortnightly cycle.)

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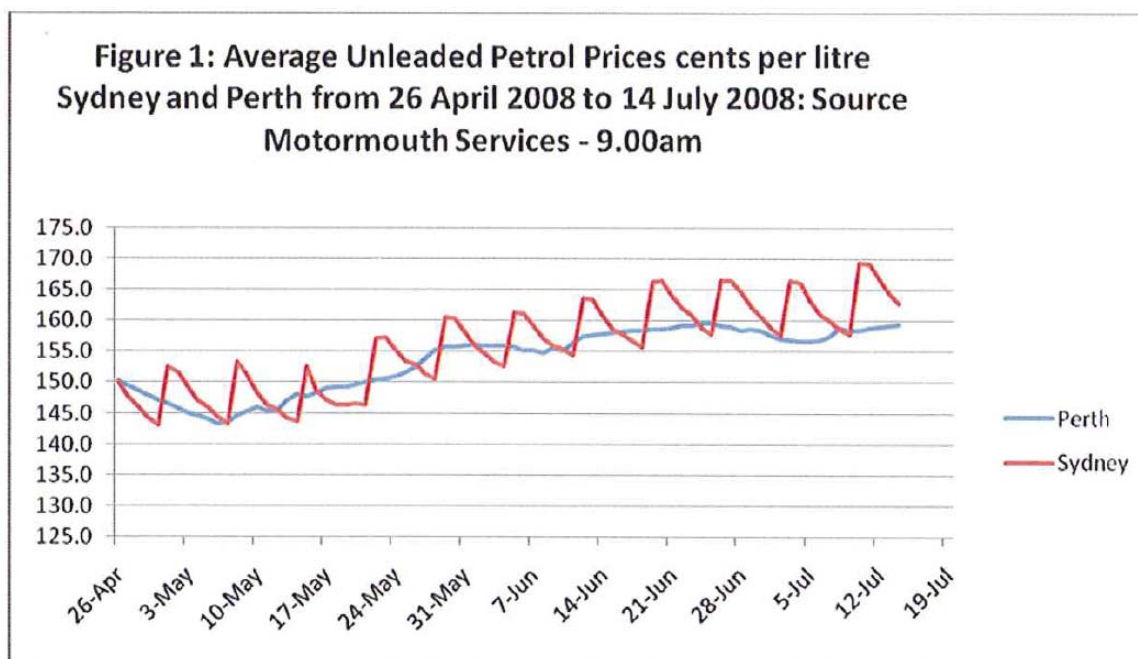
6 Mr Aaron Rayner, WA Department of Consumer and Employment Protection, *Proof Committee Hansard*, 16 July 2008, p. 3.

7 Mr David Moir, Royal Automobile Club of Western Australia, *Proof Committee Hansard*, 16 July 2008, p. 27.

8 WA Department of Consumer and Employment Protection, *Submission 5a*.

9 Concerned consumers, cited in WA Department of Consumer and Employment Protection, *Submission 5a*. The Department notes that 'no negative comments about FuelWatch were received by Consumer Protection'; *Submission 5a*, p. 3.

Chart 4.1



Source: NRMA, *Submission 8*, p. 3.

4.10 Chart 4.1 only compares Perth prices with Sydney. Average petrol prices are also lower in Perth than in other capital cities:

the average price for petrol was 3c cheaper than in Melbourne, 4.2c cheaper than in Brisbane—without the subsidy—2.4c cheaper than in Sydney and 2.6c cheaper than in Adelaide.<sup>10</sup>

4.11 While this comparison is suggestive that FuelWatch in WA is working as would be expected, it not a conclusive argument. Aside from any effect from FuelWatch, there are three factors that would tend to make petrol prices higher in Perth than in other capitals, and one that may make them lower;

- There is only one refinery in the Perth area whereas there are two each around Sydney, Melbourne and Brisbane.<sup>11</sup>

<sup>10</sup> Ms A Driscoll, WA Department of Consumer and Employment Protection, *Proof Committee Hansard*, 16 July 2008, p. 3. The comparison was done as at June 2008.

<sup>11</sup> ACCC (2007, p. 50).

- Western Australia has tighter standards on the proportion of methyl tertiary-butyl ether in petrol, which means a premium is added to the price there.<sup>12</sup>
- The Queensland government provides an 8.4 cents a litre subsidy (although some studies suggest this does not get fully passed on to retail prices).<sup>13</sup>
- The closer proximity of Perth to Singapore may act to make prices lower than in other capitals.<sup>14</sup>

4.12 A better approach is to look at *margins* rather than *prices*. Over four years, the ACCC found that the average retail margin in Perth was 3 cents per litre, the lowest in Australia.<sup>15</sup>

4.13 This appears to conflict with assertions that petrol retailers operations are more profitable in WA than in other states.<sup>16</sup> However, when Caltex was asked how profitability in Western Australia compared to other states, they replied 'the profitability is broadly similar'.<sup>17</sup>

4.14 An even better approach may be to compare margins in Perth relative to other capitals before and after the introduction of FuelWatch. While the WA Department of Consumer and Employment Protection, who administer FuelWatch, claim it lowered petrol prices in Perth relative to other capitals, Informed Sources claim it raised them by 1-1½ cents per litre.<sup>18</sup>

4.15 An unusual objection to comparisons between Perth prices and those on the Eastern seaboard is that the Perth market is inherently 'different'.<sup>19</sup> The effects of a

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12 ACCC (2007, p. 83). The WA limit is 0.1 per cent, compared to 1 per cent in the rest of Australia and 15 per cent in Europe (in other respects the Australian and European requirements are virtually the same as those in Europe). Informed Sources suggest this quality premium translates into 2 cents a litre; *Submission 22*, p. 12.

13 Smaller subsidies were removed in Tasmania and Victoria during 2007. The NT government has 1.1 cents a litre subsidy. NSW and SA have some subsidies in rural areas but not in Sydney or Adelaide. ACCC (2007, pp 88-90).

14 Woolworths estimates the difference in shipping costs is 1.3 cents a litre; *Submission 28a*, p. 1. Senator Abetz puts it at 0.7 cents a litre; *Proof Committee Hansard*, 16 July 2008, p. 7.

15 The comparable figures were 3.7 cents in Adelaide, 4.7 cents in Sydney, 4.9 cents in Melbourne and 5.1 cents in Brisbane; ACCC (2001, p. 141).

16 Senator Abetz commented 'as I understand it, Caltex has asserted publicly that it makes its biggest margins in Western Australia' and he said that another oil company made the same claim privately; *Proof Committee Hansard*, 16 July 2008, pp 8 and 26.

17 Mr Michael Ridley-Smith, Caltex, *Proof Committee Hansard*, 1 August 2008, p. 25.

18 Both cited in ACCC (2007, p. 246).

19 As the Royal Automobile Club of Victoria's David Cumming put it, 'they are different over there'; *Proof Committee Hansard*, 7 August 2008, p. 53.



national Fuelwatch could then be different to those in Perth. However, this could as well mean that Fuelwatch is *more* effective in other parts of the country rather than less effective.

4.16 In a similar vein, Professor Harding suggests changes in tax policy around 2000 may have had different effects on petrol station margins in Western Australia to Eastern Australia.<sup>20</sup> He gives no possible explanation as to why the GST should have one effect in WA and another in other states.

### **Econometric approaches**

4.17 Opponents of Fuelwatch have claimed that it led to higher petrol prices in Western Australia. The reasons why shifting market power from large retailers to consumers would have this effect were not made clear. Nonetheless, the ACCC conducted an econometric study to test this assertion, which formed a few pages (Appendix S) of their 2007 report. It has led to an inconclusive 'battle of the models' between economists supporting and opposing Fuelwatch.

4.18 As discussed in the previous chapter, economic theory would suggest Fuelwatch should lead to a fall in average prices. The magnitude would depend on how competitive the market had been previously and how many consumers make use of the Fuelwatch information in deciding when and where to purchase petrol.

4.19 The average difference between terminal gate prices and retail prices is around 5 cents a litre. Part of this is used to pay for staff and other operating costs of service stations. So the impact of FuelWatch on average prices is likely to be only a few cents a litre. It appears that the full impact took a long time to be felt. Given the numerous other changes to the factors driving petrol prices in recent years, it is therefore unsurprising that the econometric studies are not able to agree on precise estimates of the impact of FuelWatch on WA petrol prices.

#### ***The ACCC study***

4.20 The ACCC's econometric test suggested the average differential dropped by a statistically significant 1.9 cents per litre after the introduction of FuelWatch. The results compare the period August 1988 to December 2000 with that of January 2001 to June 2007.

#### ***Volumetric data***

4.21 Simple unweighted averages of listed petrol prices may not be a good basis for econometric tests. As a senator put it:

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20 Professor Don Harding, *Submission 4a*, p.19.

If there are two service stations, one that sells its petrol for \$1 a litre and another for 50c a litre, you could say that the average price is 75c per litre. But of course if the service station that sells its petrol at 50c a litre sells all the petrol, the average price paid by consumers is not 75c but in fact 50c a litre. I would have thought that the quantity of fuel sold at any stage of the price cycle is a vital component of any study.<sup>21</sup>

4.22 Ideally, the average observation for each day and market should refer to prices paid weighted by the amount sold at that price. The failure to use consumption-weighted or 'volumetric' data would understate the benefits of FuelWatch as it would not capture the effect of consumers being better placed to switch from buying petrol at dearer stations to cheaper stations.

4.23 Unfortunately, the data were not available to make the comparison using consumption-weighted prices. The closest approximation to a volumetric analysis was in the ACCC's original study where they rerun their tests on minimum prices rather than average prices. The drop in this was calculated as 0.7 cents per litre.<sup>22</sup>

4.24 As the true volumetric result should be bounded by the estimated fall in the average price (which assumes no substitution effects on volume) and in the minimum price (which assumes an extreme substitution effect on volume), and prices were lower whether calculated on average or minimum price, the implication of the econometrics is that a test done on a volumetric basis would also show that Fuelwatch was associated with lower petrol prices in WA.<sup>23</sup>

### ***'Peer review' of the ACCC study***

4.25 The ACCC has been criticised for not conducting a blind review of the econometric studies, as would be done with an article published in a scholarly journal.<sup>24</sup> The work was reviewed within the ACCC. The ACCC's methodology was also examined and found robust by Treasury.<sup>25</sup>

4.26 Professor Joshua Gans described the ACCC's work as 'a far more rigorous investigation of the WA scheme than anyone had ever done'.<sup>26</sup> He expressed great confidence in the technical abilities of his former student, the ACCC econometrician, Richard Hayes, who had done the work

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21 Senator Abetz, *Proof Committee Hansard*, 16 July 2008, p. 9.

22 ACCC (2007, pp 247, 375-7); ACCC (2008); and Dr King, ACCC, *Estimates Hansard*, 5 June 2008, p. 51.

23 Mr J Dimasi, ACCC, *Estimates Hansard*, 5 June 2008, pp 19 and 40.

24 This criticism was made by Professor Harding (*Submission 4a*)

25 *Estimates Hansard*, 4 June 2008, p. 85.

26 *Submission 1*, p. 2.

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### *Critiques of the ACCC study*

4.27 On the other hand, some econometricians have criticised the econometric approach employed by the ACCC. Professor Don Harding's main criticism in his first paper (*Submission 4a*) is that the difference between the margins should be deflated by a price index. This argument apparently did not convince his fellow sceptics as Professor Davidson and Concept Economics were content to present results using undeflated margins. However even Professor Harding's own preferred methods suggest the relative margin in WA is more likely to have fallen rather than risen after the introduction of FuelWatch.

4.28 There are various other possible weaknesses in Professor Harding's study. It would be interesting to know whether other economists would support his assumption that the margin varies with the fuel price or that it is better to deflate the weekly price margins by the interpolated fuel component of the CPI rather than the weekly price itself.<sup>27</sup> The assumption that the introduction of Coles had a sustained constant impact on the WA fuel market might also be questioned. The structural break tests employed by Professor Harding implicitly assume that FuelWatch had its full effect immediately after introduction. If the impact built up gradually, then the tests will understate the final impact.

4.29 Professor Harding's second paper (*Submission 4b*) benefits from access to Informed Sources data. Instead of comparing Perth prices to those in the rest of Australia, he just compares them to Sydney. The ACCC's Dr King believes this was done because comparisons with other cities put FuelWatch in a good light, a selective use of data which means the test 'has no statistical validity'.<sup>28</sup> Notwithstanding his criticism of the ACCC on this issue, Professor Harding's own paper is not peer-reviewed.

4.30 Professor Davidson from the Institute of Public Affairs and Concept Economics were also provided with data by Informed Sources and conducted econometric tests, also not peer-reviewed, and concluded that Fuelwatch had not reduced relative petrol price margins in WA.<sup>29</sup> However Concept Economics' credibility as dispassionate analysts of the topic was somewhat reduced by their chairman having previously called those giving weight to the ACCC's support for Fuelwatch as 'a fitting subject for psychiatric investigation'.<sup>30</sup>

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27 Serially correlated errors might be introduced by interpolating 13 observations from quarterly CPIs given that fuel prices do not move smoothly.

28 Dr Stephen King, ACCC, *Proof Committee Hansard*, 7 August 2008, p. 6.

29 *Submission 17*.

30 Henry Ergas, 'Kevin 24-7 or 7-11', *The Australian*, 3 June 2008.

4.31 Professor Wang points out some of the difficulties in assessing the impact of FuelWatch when there is only one capital city that has implemented it.<sup>31</sup>

4.32 A challenge for academics doing this work is gaining access to the underlying data from Informed Sources. The organisation provided the data to the ACCC (it is not clear whether voluntarily or under subpoena). The ACCC did not want to make this proprietary data publicly available but was happy for Informed Sources to make it available to academics. Informed Sources have chosen to supply it to some but not all academics who requested it. They say they apply two criteria in deciding whether to release their data; academics must be 'entirely independent of any organisation related to the Inquiry and that the analysis and subsequent report by the analyst will in no way compromise the commercial status or value of the Informed Sources pricing data'.<sup>32</sup> There have been suggestions that there may be another test; that 'the data have been released to parties who had previously expressed ... opposition for Fuelwatch'.<sup>33</sup>

### ***The 'Coles entry effect' versus the 'Fuelwatch effect'***

4.33 Further analysis has attempted to distinguish the effect of the introduction of FuelWatch from the effect of the entry of Coles into the Perth market. The ACCC's results showed that the entry of Coles had a much smaller impact than did Fuelwatch.<sup>34</sup> By contrast, Professors Harding and Davidson and Concept Economics conclude the entry of Coles was the only factor lowering the WA retail margin and that FuelWatch had no impact. A similar claim is made using a chart rather than econometrics by Neumann Petroleum.<sup>35</sup> Dr King questions whether some of the FuelWatch impact is being wrongly attributed to the Coles entry in these tests.<sup>36</sup> Professor Wang comments 'one cannot separate out the effect of the Fuelwatch from that of Coles or Woolworths by comparing the Perth market and the Melbourne or Sydney markets. Supermarkets entered all the major petrol markets.'<sup>37</sup>

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31 Professor Wang Zhongming, *Submission 27*, p. 10.

32 Informed Sources, *Submission 22a*, p. 7.

33 Mr Graeme Samuel, ACCC, *Proof Committee Hansard*, 7 August 2008, p.7. This interpretation is given some support by the comments by Professor Harding who said after his first paper attacking Fuelwatch came out, 'Informed Sources gave the data to me. They said they were impressed with my work. It was not available to other academics'; Professor Don Harding, *Proof Committee Hansard*, 7 August 2008, p. 24.

34 Dr King, ACCC, *Estimates Hansard*, 5 June 2008, p. 39.

35 *Submission 15*.

36 Dr Stephen King, ACCC, *Proof Committee Hansard*, 7 August 2008, p.7.

37 Professor Wang Zhongming, *Submission 27*, p. 10.

### ***Conclusion***

4.34 There seems to be no definitive conclusion from the various econometric studies. But as the majority of them find negative coefficients (albeit sometimes insignificant) on Fuelwatch's introduction when explaining petrol price margins in Perth relative to other cities, there seems no reason on the basis of the econometrics to overturn the reasoning in Chapter 3 that a national Fuelwatch scheme would lead to a modest decline in average retail petrol prices.

4.35 The committee notes in passing that the FuelWatch critics are introducing a demanding standard for changes in policy. If economic policy changes were only made after supportive econometric studies that satisfy all critics, then there would have been no floating the dollar, allowing in foreign banks, introducing the GST, cutting taxes, phasing out tariffs, privatising large government corporations and so forth; reforms which most of the Fuelwatch critics supported.



## Fuelwatch and independent operators

5.1 A number of submitters expressed concern that a decline in the number of small independent operators in the retail petrol market would erode competition and ultimately lead to higher prices. The committee respects these concerns. However, it is important to distinguish long-term influences on the number of independents that would occur with or without Fuelwatch from any impact arising from Fuelwatch itself.

### Challenges facing independents

5.2 Small independent petrol chains face many challenges in competing with the petrol retailing operations of the major oil companies and this challenge has become harder since the large supermarket chains have entered the markets. The large companies have the benefits of diversification, can afford advertising campaigns and achieve economies of scale in many areas of their operations.

5.3 Furthermore, the large companies can buy petrol from the refineries at a lower price than can small independents. One perspective on this is that it is just a normal 'bulk discount':

prices that are set in the marketplace reflect the sizes and the negotiating power of the various players.<sup>1</sup>

5.4 Others would point out that the same handful of very large companies are the principal importers, refiners, wholesalers and retailers in the Australian market.<sup>2</sup> They would then question whether the arrangements in the wholesale petrol market are truly competitive or whether they are unfairly stifling the growth of independents.

5.5 While the operation of the wholesale fuel market involves important issues, they are outside the scope of this interim report on Fuelwatch. As the ACCC remarked:

The fate of those smaller independent operators is almost entirely in the hands of the refiners and the wholesalers that supply fuel to them. If they do not supply fuel to them at a price that enables them to compete with others

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1 Mr Topham, Caltex, *Proof Committee Hansard*, 1 August 2008, p. 27.

2 The four oil companies (Shell, Caltex, Mobil and BP) and the two supermarket chains (Coles and Woolworths) between them account for 100 per cent of refining, over 90 per cent of importing, over 95 per cent of wholesaling, and over 90 per cent of retailing; ACCC (2007, pp 6-7 and 77). The ACCC identified a number of impediments to any large scale importing of petrol by a rival firm; ACCC (2007, p. 20).

in the marketplace they will not be able to compete. It is not to do with FuelWatch...<sup>3</sup>

5.6 A further challenge posed to independents by the supermarket chains is that the chains offer 'shopper docket'.<sup>4</sup> There is evidence suggesting they make consumers less price-responsive, and harder for independents to attract. Of course, these dockets are offered both in WA where Fuelwatch operates and in the eastern States where it does not.

### **Concerns raised by independents about Fuelwatch**

5.7 Many independents pride themselves on being quick to respond to price cuts by the major chains to keep themselves competitive. However, they are disadvantaged by the current market situation where the majors have access through Informed Sources to much better price data than do the independents. Fuelwatch would even things up. The independents would have access to the same pricing information as the major chains.

5.8 Some independents are worried about the 24 rule leaving them with an uncompetitive price:

We particularly oppose the prohibition on any downward price movement in the notified price in a 24-hour period. This means a retailer is unable to meet market forces in his trading area if he is off the pace or he gets it wrong when he sets his price for the 24-hour period.<sup>5</sup>

5.9 This seems a rather pessimistic attitude. If the independent has nominated too high a price for a day, their sales will be lower for that day. But equally if their large rival has nominated a higher price, the independent will achieve very strong sales and the large chain's station will be unable to respond until the next day.

5.10 The opposition to the '24 hour rule' was not shared by all independents. Australian Farmers Fuel said:

We have no problem with the price being locked for a period of time... We all take our chances in the market as long as it is fair and equitable.<sup>6</sup>

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3 Mr Graeme Samuel, ACCC, *Proof Committee Hansard*, 7 August 2008, p. 14.

4 The majority of customers using Coles-Shell and Woolworths-Caltex outlets get a 4 cents a litre discount by presenting a shopper docket obtained by spending over \$30 in one of the affiliated supermarkets.

5 Mr Charles Wright, Neumann Petroleum, *Proof Committee Hansard*, 17 July 2008, p. 15.

6 Mr Andrew Fischer, Australian Farmers Fuel, *Proof Committee Hansard*, 21 July 2008, p. 19.



### ***The 'Cherry Ripe' strategy***

5.11 Some concerns were raised that the large chains could try to subvert Fuelwatch by offering other forms of discounts to lower the effective price to motorists.<sup>7</sup> For example, they may offer a 3 cents a litre discount to motorists who buy a cherry ripe at the station. However, this strategy could prove expensive if large numbers of motorists are using Fuelwatch. The cherry ripe discount would not be reflected in the Fuelwatch price listings so it would not attract any more Fuelwatch users to the station. However, all the customers going to the station anyway may take advantage of it when they are there.

5.12 Asked about whether new forms of discounting had been a problem for the WA FuelWatch scheme, the relevant WA department replied:

There is no evidence that this has operated to defeat the intention of the Western Australian legislation. If it became apparent that loyalty discounts or similar activities were being used to undermine the intent of the legislation then advice would be provided to the Government for appropriate action.<sup>8</sup>

### ***The 'rolling price leaders' strategy***

5.13 Another potential concern expressed by independents themselves and the watchdog was that the large supermarket chains can employ a 'rolling price leaders' strategy:

FuelWatch has harmed the competitive position of independents as it allows large operators to adopt a strategy of rolling price leaders. Media reports of FuelWatch price information highlight retail stations with the lowest prices. This provides an opportunity for larger competitors with bigger networks of retailers to have rolling price leaders in the market, with different stations under the same banner being publicised as the cheapest for a region or suburb at different times. Operators with smaller networks are less able to employ this pricing strategy placing these retailers at a competitive disadvantage in the market.<sup>9</sup>

so-called rolling price leaders where the bigger operators have the ability to deliberately underprice some of their sites so that they get into the top 10 or top 20 cheapest lists ... Because they are a fair size, they can even in a sense be selling petrol at a loss to get their sites into those lists whereas

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7 Among variants suggested are discounts for locals, happy hours, lucky dips and member discounts; Informed Sources, *Submission 22*, p. 15.

8 WA Department of Consumer and Employment Protection.

9 Gull Petroleum, cited in ACCC (2007, p. 246). Concerns about this rolling price strategy are also expressed by the Australasian Convenience and Petroleum Marketers Association, *Submission 6*, p. 5; and Trade Practices Committee of the Business Law Section of the Law Council of Australia, *Submission 21*, p. 5.

independents do not have the financial wherewithal to do that. The argument is that the majors are able to create an impression that they are cheapest because they are in the top 10 cheapest sites.<sup>10</sup>

5.14 However, this strategy may be *less* effective under Fuelwatch than under the various backward-looking petrol price reporting schemes currently in operation. At present, a chain can arrange for a handful of its stations to offer a very low price one day. These will be reported on the nightly news as the cheapest outlets but by the time customers are attracted to these stations the following day the price has gone back up so the chain does not lose much profit. By contrast under Fuelwatch, viewers will be able to go to the few stations offering a very low price the next day, rather than other stations operated by the same chain, and so the strategy will be quite expensive for the chain.

5.15 Again, the WA experience is illuminating. The Royal Automobile Club of Western Australia observe:

While there is a risk of large companies with many sites gaming the system, the RAC does not have any hard evidence that it is occurring to any significant extent.<sup>11</sup>

### **The experience of independents under FuelWatch in Western Australian**

5.16 When pushed to give an 'assurance' that a national Fuelwatch would not have an adverse impact on independents, the ACCC replied that:

Is there any reason why FuelWatch could or should have an adverse impact? The answer is no.<sup>12</sup>

5.17 The ACCC buttressed this by reference to the Western Australian experience under FuelWatch there:

we had a fairly close look at that...we just could not see any evidence that independents in Western Australia had been adversely affected by FuelWatch. Sure, they had declined, but independents have declined across Australia. Indeed, they have been declining for the last 20 years... we had evidence presented to us that suggested that independents in Western Australia, following the introduction of FuelWatch, had probably done a bit better than independents in other states.<sup>13</sup>

5.18 This view that independents had fared relatively well in WA was confirmed by the relevant department there. Between 2001 and 2008, within the FuelWatch

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10 Mr Barrie Cassidy, ACCC, *Proof Committee Hansard*, 7 August 2008, p. 14.

11 RACWA, *Submission 20*, p. 4.

12 Mr Graeme Samuel, ACCC, *Proof Committee Hansard*, 7 August 2008, p. 14.

13 Mr Barrie Cassidy, ACCC, *Proof Committee Hansard*, 7 August 2008, p. 14.

boundaries, the proportion of service stations operated by 'branded independents'<sup>14</sup> rose from 34 to 35 per cent; the proportion operated by 'independent chains'<sup>15</sup> was steady at 13 per cent and the proportion of 'unbranded independents'<sup>16</sup> rose from 2 to 6 per cent.<sup>17</sup>

5.19 An alternative data source is provided by Independent Sources. Their analysis, which is restricted to the Perth metropolitan area and uses different definitions of 'independents', suggests there has been a marginal fall in their market share. Unfortunately they do not present any data for the Eastern states for comparison.

**Senator Annette Hurley**

**Chair**

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14 A service station owned by an independent operator, but having the branding of an oil company or independent chain. This type of site makes up a majority of regional sites.

15 These are sites that are owned by a large independent company. In Western Australia, these companies are Gull, Peak and United. These sites are predominantly located in the Perth metropolitan area.

16 These are sites that have no branding, and are owned by an independent operator.

17 WA Department of Consumer and Employment Protection, *Submission 5*, p. 13.



# Coalition Senators' critique of Labor's Interim Report into the proposed National FuelWatch Scheme

## Introduction

The decision by Labor members of the Committee to produce an interim report is an indication of the Government's increasing desperation as it tries to ensure the passage of FuelWatch.

There was no requirement by the Senate that an interim report be prepared. It is not common practice to do so. It is unusual, to say the least.

Committee proceedings are publicly available. We do not accept that an interim report is necessary to inform public debate.

The Interim Report itself has the signs of having been rushed and consequently flawed. The nature of the introduction, with its talk of visiting "Granny in Ballarat", is a desperate attempt to obfuscate and to distract from its lack of content.

Everyone favours easily accessible and cheap petrol. We are all in favour of more information for consumers. However, any proposal to change the operation of such an important market as that of fuel retailing deserves full and careful consideration. The risk here is that in "empowering consumers," to quote Labor, we "empower" them to pay more for their petrol than they would otherwise have done. That would be a cruel fraud to perpetrate on the fuel consumers of Australia.

The evidence received by the Committee is not reflected in the Interim Report. The Interim Report is quite simply, biased.

It ignores the vast majority of evidence presented to the Committee that cast doubt on, or contradicted, Labor's premise that FuelWatch would result in lower prices. Concerns expressed about the position of independent retailers are at one point dismissed merely as "pessimistic." This is not the basis of good policy-making.

Even those in favour of FuelWatch seem confused about the alleged benefits.

The Prime Minister has referred to the ACCC's figure of a reduction of 1.9 cents per litre (cpl) in the 'relevant weekly average price margin.'<sup>1</sup> The Assistant Treasurer

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1 *House Hansard*, Questions Without Notice, 28 May 2008.

referred to an ACCC analysis that found 'it puts downward pressure on prices by 2cpl.'<sup>2</sup>

The former Petrol Commissioner, Pat Walker, is on record that a national scheme would save 5cpl.<sup>3</sup>

Finally, the Treasurer estimates \$10 a tank.<sup>4</sup> For a 50l tank, that equates to a saving of 20cpl.

The overwhelming weight of evidence suggested that there would be no savings and there may well be price increases – especially in South Australia.

Coalition members of the Committee will release a full, minority report on the hearings at the appropriate time. In this document, we confine ourselves to the failings of Labor's Interim Report. The following sections and paragraph numbers relate to sections in that report.

## **The Economics of FuelWatch – Outlawing price decreases hurts consumers**

### ***24 hour rule***

FuelWatch, with its requirements to fix a price a day in advance and then to hold that price for 24 hours, does not make the market more competitive, and tends to a higher average price.

Paragraphs 3.5 to 3.9 refer to the 'information asymmetry' generated by some retailers subscribing to Informed Sources, and thereby gaining access to each other's prices in something approaching real time, information not available to the consumer. FuelWatch would reduce this asymmetry and result in a more competitive market, the report states.

We fail to see how fixing prices for 24 hours increases competition. In fact, however it would reduce competition, as the larger retailers are more able to withstand selling at a lower than realistic price at one or more outlets for 24 hours (the so-called "rolling price leaders" strategy) than are the smaller retailers.

### ***FuelWatch will not make the market more competitive***

Paragraphs 3.9 asserts that the implementation of FuelWatch will make the market more competitive. This general statement is not substantiated and is an unfounded assertion simply made to support the Government's case.

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2 *House Hansard*, Matter of Public Importance, 14 May 2008

3 *Sunday Times*, 30 March 2008, p. 26 (He has since asserted he was misquoted although a clarifying statement was not issued).

4 *ABC Insiders* programme, 17 August 2008.

Paragraph 3.11 states:

The logic of the argument (that price fixing increases competition) is that over time FuelWatch will not only help those motorists using it to locate stations offering cheaper fuel, but the added stimulus to competition will push down average prices for all.

Again, this is simply a bland assertion. There is no logic or argument. There is firstly a statement of the obvious in that motorists who use FuelWatch will go to outlets charging less, rather than more, for their fuel. Secondly, there is the unsupported assumption that FuelWatch will be a stimulus for competition. Thirdly there is the leap of faith that retailers will be competing at a lower, rather than a higher, price level.

Paragraphs 3.12 and 3.15 make general statements such as:

It is hard to quantify how large this impact will be.

It is not acceptable to fail to offer evidence of the desired effect of public policy because it is “hard” to do. Without quantification, we are left nothing.

Paragraph 3.33 attempts to sum up the section on the costs of various existing price information services. It states:

It seems clear that the resources devoted to collating and dispersing petrol price information will be much less under a national FuelWatch scheme than under the current arrangements, and the benefits it provides to consumers, much greater.

The report provides no evidence for this statement. It is not sufficient in matters of public policy to merely say that matters 'seem clear'. The purpose of an inquiry is to provide clarity, based on fact.

The section offers no analysis of the total costs to Informed Sources and other organisations who offer price information, no total figures in comparison to the funds allocated to a national FuelWatch scheme, and ignores the fact that currently such costs are borne by the private sector, rather than the taxpayer.

Finally, the claim of 'much greater' benefits is simply not substantiated.

### ***Price cycles***

Paragraphs 3.34 to 3.47 refer to petrol price cycles and are, in general, descriptive and speculative. However, we draw attention to the following two statements:

Paragraph 3.36 states:

However, motorists are limited in the extent to which they exploit their (imperfect) knowledge of the price cycles.

This statement is made on the basis of research conducted by the ACCC in 2007 and yet the Committee was told by the Victorian Automobile Chamber of Commerce

(VACC) that the majority of independents trade with private motorists was done at the lowest points of the weekly price cycle:

We have members who say, 'I might as well go and play golf from Wednesday afternoon until Monday morning because nothing comes through.' You have only to drive past any service station on your way home to see that they are not barren but very few cars are there. Those who are there are the ones who are not affected by price or who do not get a discount—fleet vehicles or people who financially do not need to buy at the bottom price.<sup>5</sup>

This is in clear contradiction to the statement in the report yet Labor Senators have chosen to ignore it.

Furthermore, on the extent of motorists' knowledge, the Committee was told by Mr Jim Murphy, Executive Director, Department of Treasury, that:

We all know that Tuesday is the best day to buy petrol and the price increases as the week goes on..... The ACCC have sought for a number of years to try to do the right thing by consumers in telling them to do that.<sup>6</sup>

Paragraph 3.43 states:

Those who claim that the cycle results in a lower average price have to explain why the difference between the high and low points of the cycle appears to exceed the average margin on petrol. This implies that stations are selling at a loss at the low point of the cycle. The Committee has not heard a convincing explanation as to why stations would choose to do this permanently.

We have a number of issues with this statement. Firstly, it refers to 'the cycle'. But each price cycle in each urban centre is different and there is no indication here of an analysis that combines results from all price cycles that supports the general statement about price and high and low points. Secondly, there is the phrase 'appears to exceed'. Again, this is not good enough. We require proof that it exceeds or that it does not. Thirdly, in terms of consumer benefit, we do not need an explanation as to why stations might be selling at a loss; that is a matter for the retailers themselves. But clearly no station does so permanently.

Indeed, an explanation was provided in evidence from a franchisee:

The fuel is used as a drawcard. I have a very, very low margin on that. But without that turnover, without that volume of traffic coming in, I cannot generate my shop sales, which is where I actually make my money.<sup>7</sup>

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5 Mr Terrence Conroy, Victorian Automobile Chamber of Commerce, *Proof Committee Hansard*, 7 August 2008.

6 Mr Jim Murphy, Treasury, *Proof Committee Hansard*, 11 August 2008.

7 Mr Damien Carew, Franchisee, APCO Service Stations Pty Ltd, *Proof Committee Hansard*, 7 August 2008, p. 44.



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On a more general point, price cycles do not necessarily have to deliver a lower average price to benefit the consumer who consistently buys on the cheaper days.

Paragraph 3.46 refers to the “buying-below-the-average” fallacy and to “the irrelevance of the proportion of the sales made below the average price as a criterion.”

This treats with contempt those motorists, who, for very good reason, make efforts to buy below the average price. Labor Senators themselves state in the Interim Report (paragraph 3.12):

...even the reduction of a few cents per litre....adds up to a significant saving for motorists.

How, then, can this be an irrelevance?

Paragraph 3.47 refers to the unpopularity of intra-day price movements. We accept that such price movements are unpopular but note that the ACCC research referred to states that “a third” were willing to pay higher average prices if it meant no intra-day volatility.

Given the Labor Senators’ earlier statement that a saving of a few cents is significant, the support of only a third of motorists, for whom price is clearly not a critical issue, for a measure which would increase prices hardly justifies a move to end intra-day volatility.

### **FuelWatch in Western Australia**

The evidence presented by Labor Senators in their interim report with respect to DOCEP, the department that administers FuelWatch in Western Australia, was peppered with vague comments that could not be adequately backed up.

Paragraph 4.5 states that FuelWatch is 'widely' used and quotes Ms Driscoll:

Currently, almost 300,000 people are accessing the FuelWatch website per month. Over 32,000 are receiving personalised emails daily so they can make choices about where they buy their fuel....60 per cent of people have indicated that they actually use FuelWatch.

However, DoCEP’s written submission to the Committee states:

During May 2008, there was a record 291,767 visits (our emphasis) to the FuelWatch website...

Allowing for Ms Driscoll rounding up the figure in her evidence, these two statements are not compatible. The number of visits to a website is not the same as the number of people using the website which would be a better indication of its overall use.

Or are we to assume that the two figures are correct and people only visited the site once a month? If so, this would suggest that they hardly find it an essential part of the process of buying petrol, or if they did, they only bought petrol once a month.

Opposition Senators consider that the national publicity surrounding FuelWatch during May 2008, played a significant part in increasing visitor figures as curiosity may have led to people outsider of Western Australia visiting the site.

Paragraph 4.7 states:

Some consumers were alarmed when they heard about opposition to a national scheme, fearing WA FuelWatch might be abandoned.

A total of four emails are quoted in the interim report with a reference to DoCEP's Submission 5a, where we find a total of 6 un-attributed emails, including the four already quoted.

In the absence of any further evidence, we feel it would be accurate to say instead: 'six consumers were alarmed'.

Full details of these surveys were promised to Senators but not provided.

### ***Comparison of fuel prices between Perth and Eastern States***

Paragraphs 4.8 to 4.16 deal with a comparison of fuel prices in Perth with those in other capitals.

At this point, we would remind Labor Senators of the evidence given by Mr Aaron Rayner, Deputy Prices Commissioner, DoCEP, in response to this question from Senator Pratt: "Do you have any information that highlights the tipping point and how FuelWatch contributes to the number of informed consumers you have to really demonstrate how that downward pressure (on prices) works?"

Mr Rayner replied:

We have not done a study ourselves or scrutinised the econometric analysis in any great detail.<sup>8</sup>

We are surprised that DoCEP has not done more work to scrutinise the performance and effects of its own initiative.

Paragraph 4.9 refers to Chart 4.1, provided by the NRMA, showing average prices in Sydney and Perth from 26 April, 2008, to 14 July, 2008, the Perth average tending to be lower. This "suggests" that FuelWatch has lowered average prices. There is no evidence in this section to support this limp assertion.

We do not accept that a comparison over a matter of weeks is of value when FuelWatch has been running since 2001. It is just a snapshot. Other factors may have been at work. Furthermore, the price differential may have been the same or similar before FuelWatch.

Paragraph 4.10 quotes further evidence from Ms Driscoll stating that Perth prices were lower than those in Melbourne, Brisbane, Sydney (again) and Adelaide. The footnote notes that the comparison was “done as at June 2008” suggesting, if anything, that prices were surveyed over the whole month. Ms Driscoll, in fact, prefaced her remarks with:

In the month of June we observed that.....<sup>9</sup>

We therefore know very little about the significance of these figures and the period over which they were collated. In any case, the same qualifications would apply to Ms Driscoll’s figures as to those from the NRMA. Even if they were collated over the whole of June, that is an even shorter period than cited by the NRMA.

Paragraphs 4.11 to 4.17 provides an inconclusive discussion of margin comparisons and possible differences between the Perth market and other markets.

### ***Economic Analysis of FuelWatch’s impact in Perth***

Paragraph 4.18, referring to the previous chapter of the interim report, states:

Economic theory would suggest FuelWatch would lead to a fall in average prices.

We do not accept that this statement is supported by the previous chapter and note again the un-supported statement in Paragraph 3.11 that:

the added stimulus to competition will push down average prices for all.

Paragraph 4.19 concludes this section:

Given the numerous other changes to the factors driving petrol prices in recent years, it is therefore unsurprising that the econometric studies are not able to agree on precise estimates of the impact of FuelWatch on WA petrol prices.

This statement is deceptive, to say the least, and flies in the face of the evidence given to the committee. The point is not that economists or econometricians cannot agree on precise estimates but that the majority of those giving evidence to the committee (Concept Economics, Access Economics, Professor Harding, Professor Zumbo) agreed that the ACCC analysis was flawed.

After acknowledging the complexity of the analysis, it seems strange that Labor Senators are prepared to accept the ACCC's conclusions alone as a basis for policy-making, without taking into account the many opposing views.

### ***Lack of Volumetric Analysis***

Paragraph 4.21, on volumetric data, states:

Simple unweighted averages of listed petrol prices may not be a good basis for econometric tests.

Paragraph 4.22 states:

Ideally, the average observation for each day and market should refer to prices paid weighted by the amount sold at that price.

It adds that any such analysis would make FuelWatch more attractive because it would reveal the result of motorists buying more fuel at cheaper outlets. This is pure conjecture. It may be the case, but it might also be the case that because of reasons of convenience, time-management, locality etc, ie real-life considerations taking precedent over economic theory, motorists are not buying at the cheaper outlets, even though they may be aware of them.

This was supported in evidence by Mr J Murphy, of the Treasury:

It seems to us that the consumers are not active or energetic enough in seeking out bargains.<sup>10</sup>

We also recall the following evidence from Professor Joshua Gans:

There are a myriad of things that are relevant that were not taken into account in the average prices that were given to the ACCC.<sup>11</sup>

Paragraph 4.23 states:

Unfortunately, the data were not available to make the comparison using consumption-weighted prices.

Notwithstanding, Paragraph 4.24 then boldly states:

...the implication of the econometrics is that a test done on a volumetric basis would also show that FuelWatch was associated with lower petrol prices in WA.

The source for this statement is given as Mr J Dimasi, of the ACCC.<sup>12</sup>

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10 *Proof Committee Hansard*, 11 August 2008, p. 28.

11 *Proof Committee Hansard*, 7 August 2008, p. 55.

12 *Proof Committee Hansard*, 5 June 2008, pp 19 and 40.

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This is another remarkable assumption. The Interim Report says that, ideally, a volumetric analysis needs to be done; that there is no volumetric data available; but, if it were, it would show that that FuelWatch resulted in lower prices; and it quotes a minority view in support of this.

This is how Professor Ergas described the analysis that led to that minority view:

...we do not see how the ACCC could have objectively concluded that FuelWatch did not have potential adverse effects, possibly for significant numbers of consumers.<sup>13</sup>

### ***ACCC analysis was not peer reviewed***

Paragraphs 4.25 and 4.26 refer to the issue of peer review in relation to the ACCC study and the general practice of making data and methodology available for others to examine and validate.

The Interim Report states:

The work was reviewed within the ACCC.

This clearly misses the point of peer review. It goes on to say that the Treasury found the ACCC's methodology robust; but the Treasury was among the Government departments which had reservations about a national FuelWatch scheme.

Paragraph 4.26 quotes Professor Gans describing the ACCC study as

A far more rigorous investigation of the WA scheme than anyone had ever done.

We are only aware of one earlier investigation, by DoCEP. As we have noted, we do not regard the DoCEP evidence as conclusive and, anyway, it draws heavily on work done by the ACCC. The statement therefore does not, in our view, amount to a ringing endorsement, as presented in the Interim Report.

We also note that those commenting on the ACCC analysis made their data and methodology public, which the ACCC did not.

Much evidence was given to the Committee about the lack of opportunity to fully peer review the ACCC analysis. For example:

The most important thing is that the data is publicly available because without the data being publicly available it cannot be replicated independently. Replication is absolutely essential to science.<sup>14</sup>

The essence of empirical research, analytical research, is that your data needs to be available for independent peer review. It is a fundamental

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13 *Proof Committee Hansard*, 11 August 2008, p. 3.

14 Professor Don Harding, *Proof Committee Hansard*, 7 August 2008, p. 22.

precept of academic best research practice that your data be available to external parties to be able to replicate that analysis.<sup>15</sup>

I have not come across another instance in Australian public policy since the 1970s where a significant issue such as this has been said to be determined on the basis of modelling and the results of that modelling have not been made available to the public.<sup>16</sup>

Furthermore, we find it remarkable that the Treasury, according to Mr J Murphy, was under the impression that the information had been made available:

My understanding was that the ACCC gave other econometricians access to a lot of this information, actually.<sup>17</sup>

We note that the Interim Report devotes only two short paragraphs to this important point whereas it devotes six, mostly lengthy paragraphs (4.27 to 4.32), to criticising the contributions made by critics of the ACCC. Again, we do not feel this reflects the weight of evidence given to the inquiry.

The criticisms are partial, and not conclusive. Again, the statement in Paragraph 4.29 that Professor Harding's work is not peer-reviewed is deceptive as the Professor has made his data and methodology available.

Paragraphs 4.34 offers a conclusion, of sorts, to this chapter. The Interim Report states that 'no definitive conclusion' can be drawn from the various econometric studies. It would be more accurate to say that the majority of evidence disputes the analysis by the ACCC on which the Government is basing its policy.

The paragraph continues: '...there seems no reason on the basis of econometrics to overturn the reasoning....that a national FuelWatch scheme would lead to a modest decline in average retail petrol prices.'

This is simply a travesty of the evidence, which was that there is little or no good reason to assume that a national scheme would lead prices to fall. It is also a bizarre statement to make, given the earlier assertion that "no definitive conclusion" can be drawn.

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15 Professor Frank Zumbo, *Proof Committee Hansard*, 1 August 2008, p. 40.

16 Henry Ergas, *Proof Committee Hansard*, 11 August 2008, p. 7.

17 *Proof Committee Hansard*, 11 August 2008, p. 30.

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## Fuelwatch and Independent Operators

Paragraph 5.1 notes that:

It is important to distinguish long-term influences on the number of independents that would occur with or without FuelWatch from any impact arising from FuelWatch itself.

This is precisely the point with regard to prices that the Interim report fails to establish.

Paragraph 5.7 refers to the responsiveness of independents to price cuts by major retailers and to the alleged commercial advantage provided to major retailers through access to Informed Sources and states: “FuelWatch would even things up.” If independents, as suggested, currently benefit by being more responsive, then we fail to see how removing their ability to respond through the 24-hour rule would improve their position.

Paragraphs 5.8 and 5.9 refer to evidence by Mr Charles Wright, of Neumann Petroleum, particularly opposing the ban on price-cutting during the 24-hour period.

The report dismisses his position as “rather pessimistic.”

With respect to Labor Senators, we find this remark insulting. We believe that Mr Wright has more experience of petrol retailing than our Labor colleagues and his evidence should not be dismissed in this way.

It was also the view of the Motor Trade Association (SA) that:

The proposed Fuelwatch Scheme does not provide independents with the opportunity to lower their pricing in order to be competitive with other sites in the event that they may not get their individual pricing strategy correct on any one day.<sup>18</sup>

The Interim Report goes on to note that if the independents’ price is too high, their sales will drop, and vice versa: but this takes no note of the fact that independents are less likely to be able to weather the effects of being locked into a higher price than their rivals.

As we were told by Royal Automobile Association of South Australia:

If you are forced to lock that price in at that lower level and your competition do not follow you, then there is the potential that over time that price will inevitably rise to a point where you are comfortable with the

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18 John Chapman, Executive Director, Motor Trade Association SA (Inc), *Proof Committee Hansard*, 21 August 2008, p. 10.

margin. We know that the oil majors have the ability to spread that risk out over a number of sites. Independents are limited to one or two outlets.<sup>19</sup>

### ***Rolling price leaders***

Paragraphs 5.13 to 5.15 refer to the “rolling price leaders” strategy, whereby larger operators nominate a particular outlet to lower its price, relative to others in the chain. Customers are then driven to the operator’s other outlets on the back of the low price.

It is suggested that this strategy “may be less effective” under FuelWatch. Under backward-looking reporting schemes, the low price reported by the media in the course of an evening may have been raised by the next day. If the price were fixed, the strategy would be more expensive for the chains.

One might also argue that, with careful pricing, the strategy could benefit the chains as they would have a full 24 hours to take advantage of the strategy before any independent could undercut them. It also assumes that motorists do not realise that they are viewing a current, rather than a forward price. Once again, this is speculative, rather than conclusive.

The Interim Report leans on a submission by the RACWA and quotes:

While the RAC has not carried out a full economic analysis of the economic costs and benefits of the WA FuelWatch scheme, it appears the benefits to consumers of the scheme outweigh the costs.<sup>20</sup>

We note the lack of full analysis and the use of the word 'appears'.

### ***Experience and numbers of Independents***

Paragraphs 5.16 to 5.19 refer to the experience of independents under FuelWatch in WA and opens with a statement from evidence by the ACCC to the effect that there was no reason why a national FuelWatch scheme 'could or should' have an adverse impact on independents.

The ACCC is then quoted as saying:

..we had a fairly close look at that...we just could not see any evidence that independents in Western Australia had been adversely affected by FuelWatch. Sure, they had declined, but independents have declined across Australia.<sup>21</sup>

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19 Matthew Hanton, Senior Analyst, Royal Automobile Association of South Australia, *Proof Committee Hansard*, 21 August 2008, p. 4.

20 RACWA, *Submission 20*, p. 5.

21 Mr Barrie Cassidy, ACCC, *Proof Committee Hansard*, 7 August 2008, p. 14.



Paragraph 5.18 then draws support for this stance from the DoCEP's Submission 5 to the inquiry that shows the proportion of various kinds of independents as static or rising between one and four per cent.

By DoCEP's own admission, we know that it relied on the ACCC for much of its analysis of FuelWatch, in this instance, on 'a fairly close look' by the ACCC. To quote DoCEP's figures in support of the ACCC is therefore not adding much to the argument.

In spite of the reference above by the ACCC to the position of independents elsewhere in Australia, the DoCEP's figures are not related to changes in independents' market share elsewhere in Australia; we do not therefore know whether they are faring better or worse under FuelWatch.

Neither do we know whether in WA their market share is increasing or decreasing.

## **Conclusions**

This document was prepared by Coalition Members of the Senate Economic Committee in response to the Interim Report by Labor Members. It deals solely with the contents of the Interim Report and is not intended as a minority report of the Committee hearings, which will follow in due course.

On the basis of its contents, we can see no need for the release of the Interim Report.

It was suggested that the purpose of its release was to inform public debate. All the evidence presented to the Committee is already available to the public.

Furthermore, the use of evidence in the Interim Report is so partial as to provide a dis-service to the public and, in general, it relies more on speculation rather than fact.

It does not answer the crucial questions of what effect FuelWatch has had on the petrol market in Western Australia, with regard to price, the level of competition, or the effect on independent retailers. Therefore neither does it offer any guidance on what the effects might be if the scheme were introduced across Australia.

We regard the Interim Report as a failed attempt to justify the Government's efforts to get the FuelWatch legislation passed by the Senate.

**Senator Dr Alan Eggleston**

**(Deputy Chair)**

**LP**

**Senator David Bushby**

**LP**

**Senator Barnaby Joyce**

**LNP**

**Senator the Hon. Eric Abetz**

**LP**

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