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Consumer Protection

24 July 2008

Our Ref: CP01209/2008, A652383

Enquiries: Aaron Rayner (08)6364 3107

Senator Annette Hurley
Chair
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Hurley

SUBMISSION TO THE SENATE INQUIRY INTO THE PROPOSED NATIONAL FUELWATCH SCHEME

I refer to the Senate Economics Committee Inquiry (the Inquiry) hearing in Perth on 16 July 2008 convened to examine the Bills relating to the implementation of a national FuelWatch scheme in other States and Territories in Australia.

You have requested the Department of Consumer and Employment Protection (Consumer Protection) provide you with additional data about volume of unleaded petrol (ULP) sales, surveys about consumer awareness of FuelWatch in Western Australia, average daily fuel prices in Busselton from 2001 to 2008 (to date), and a response to the hypothetical scenario posed by Senator Abetz about price notification.

Volume Pricing Data

Consumer Protection has provided information about volume pricing data to the Australian Competition and Consumer Commissioner (ACCC) in its submission to the Inquiry into the price of unleaded petrol. A summary of the relevant information from that submission is enclosed for your information (**Attachment A**). It is important to note that these data relate to volumes sold in 2004 and 2005 and therefore some caution should be applied when interpreting the findings.

Consumer surveys

Since 2004, Consumer Protection has engaged consultants to survey the extent of consumer awareness of fuel pricing information provided by the FuelWatch scheme in Western Australia and whether consumers were satisfied with the service provided. A summary of the results of the surveys is enclosed for your information (**Attachment B**). It should be noted that both ULP prices and consumer use of FuelWatch pricing information have substantially increased since the last survey was completed twelve months ago. It is therefore probable that the next survey will show greater consumer awareness and satisfaction with the FuelWatch service.

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Regional areas – Busselton average daily fuel prices

Average daily fuel pricing information relating to Busselton is also enclosed for your information (**Attachment C**).

Hypothetical price notification scenario

The current Western Australian legislation allows retailers to advertise and provide loyalty discounts for petrol. The Western Australian FuelWatch legislation provides for this. 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.

Comment in relation to criticism of FuelWatch after the Senate Committee hearing

The content of the submission made by Consumer Protection provides evidence of the effectiveness of FuelWatch.

The information provided on the day of the hearing by Consumer Protection highlighted that since 2004 the retail price of unleaded petrol in Perth has been consistently lower than other capital cities in Australia. To further illustrate this point, a graph was provided which showed that in June 2008 Perth ULP prices were on average 2.4 to 4.2 cents per litre lower than eastern States capitals. The findings of the ACCC's recent petrol pricing inquiry report were also referred to. This study found that since the introduction of FuelWatch, Perth ULP price margins had reduced up to 1.9 cents per litre (cpl).

Since the Prime Minister announced the implementation of a national FuelWatch scheme significant criticism and misinformation has been levelled at the Western Australian FuelWatch scheme. Of concern is the widespread and unsubstantiated criticism that FuelWatch has had a negative impact on the Western Australian retail fuel market. This is illustrated by the assertion that the number of independent retailers operating in Western Australia had decreased as a result of FuelWatch. Such assertions cannot be substantiated. Consumer Protection's submission to the Inquiry clearly shows that the proportion of independently owned and operated sites (having no branding) has increased from 2% to 6% between 2001 and 2008.

In summary, whilst Consumer Protection has not undertaken separate research to establish that FuelWatch alone has reduced the overall price of ULP in Western Australia, the evidence is that since the introduction of FuelWatch:

- Western Australia has consistently benefitted from the lowest ULP prices of all major cities in Australia;
- There is no evidence that FuelWatch has adversely impacted on competition or market structure in Western Australia;
- More than 280,000 visitors to the FuelWatch are recorded each month as well as more than 37,000 people subscribing to receive daily email to assist them in their fuel purchases; and

- In light of the 1.9 cpl saving independently attributed to FuelWatch by the ACCC, Western Australian motorists are saving approximately \$28M-\$30M per year compared to the \$700,000 per annum cost of administering FuelWatch.

Given these benefits and the independent assessment carried out by the ACCC, Consumer Protection does not believe that there would be significant benefit in conducting its own research of the direct overall ULP price impact of FuelWatch.

Given the wealth of empirical information that Consumer Protection provided to the Committee, it was surprising to hear comment in the national media, immediately following the Perth hearing, that FuelWatch lacked merit and should be discontinued in Western Australia. For your reference, I have enclosed a sample of emails received by Consumer Protection from FuelWatch users in response to some of this criticism (**Attachment D**). It is worth noting that no 'negative' comments about FuelWatch were received by Consumer Protection.

Should you require further clarification of our comments, please do not hesitate to contact Mr Aaron Rayner, Deputy Prices Commissioner, on (08) 6364 3107.

Yours sincerely



Annie Driscoll
Commissioner for Consumer Protection



Department of Consumer
and Employment Protection
Government of Western Australia

Consumer Protection Division

Additional Information

**for the Senate Inquiry into the
Proposed National Fuelwatch Scheme:
Volume of Sales Data**

July 2008

**Additional Information for the Senate Inquiry into the Proposed National Fuelwatch
Scheme: Volume of Sales Data**

PRINTED: 24 July 2008; 3:18:26 PM

LOCATION: CP01209/2008, A649525

1. Market Share By Volume

Data about price and volume of sales for retail sites in the Perth metropolitan area and Mandurah for 2004 and 2005 have been obtained by FuelWatch. These outlets had ownership structures categorised as company controlled, independent chain or supermarket. Table 1 shows the relative proportion of ULP sold by sites in each category for the last quarter of 2004 and the last quarter of 2005.

Table 1: Proportion of Perth ULP volume sold by categories of retailers

<i>category</i>	<i>2004</i>	<i>2005</i>	<i>Overall</i>
Company Controlled	25%	22%	23%
Independent Chain	17%	13%	15%
Supermarket	58%	65%	62%
Total	100%	100%	100%

This analysis shows that the supermarket controlled outlets sell a majority by volume of ULP in Perth and Mandurah, and that this proportion increased by 7 percentage points between 2004 and 2005. Similar data about volume of sales has not been obtained for 2006 or 2007.

2. Volumes sold during the price cycle

For the period 1 October 2004 to 31 December 2004, a regular 7 day price cycle existed in Perth. For the same period in 2005, there was no price cycle.

Table 2 compares the proportion of total ULP volumes sold by day of the week for the period in 2004 with the corresponding period in 2005. From Table 2, it is shown that Thursdays and Fridays are days of highest consumption and Sunday is the lowest, regardless of whether a price cycle exists or not.

Table 2: Percentage of total volume of ULP sold in Perth by day of the week

<i>Day of the week</i>	<i>Oct – Dec 2004^a</i>	<i>Oct – Dec 2005^b</i>
	<i>%</i>	<i>%</i>
Monday	14.32	13.65
Tuesday	15.28	14.07
Wednesday	14.76	14.80
Thursday	15.31	15.96
Friday	15.74	16.16
Saturday	13.50	14.33
Sunday	11.09	11.02

a Period with regular 7 day price cycle with cycle starting on Tuesdays

b Period with no regular ULP price cycle.

It is often argued that, in aggregate, consumers benefit from price cycles because 60 per cent of sales are below the average price for the cycle. While 60% of sales may be made at a price below the average price for the cycle, this situation provides no relative benefit to consumers. The ratio of sales above and below the average price for the cycle is a construct of the timing and level of the price hike, the rate at which prices are subsequently reduced, and the stable pattern of consumption throughout the week. For example, high prices in the early part of the cycle raise the overall average price for that cycle and result in greater volumes of sales below this average price. Both the price cycle and the calculation of volume of sales below the average price for the cycle are contrived marketing tools.

3. Gross Profits

As the ratio of sales above or below the “average” price for the cycle is a construct of the timing and level of the price hike and the rate at which prices are subsequently reduced, retail margins provide a more reliable indicator of any benefit to accrue to consumers from price cycles. FuelWatch data show that indicative retail margins were higher for a period in 2004, when there were regular price cycles, than the same period in 2005 when no regular price cycles occurred.

Figure 1 in Appendix A provides a model of the impact on gross profits for a retailer who leads a price hike. The model is based on volume of sales and retail prices gathered for the period October to December 2004. The retailer in

the model is the first to hike prices for this cycle, on Tuesday as depicted in Figure 1 in Appendix A. The bars on the graph depict the volume of fuel sold by the retailer. The line on the graph indicates the gross profit for each day of the cycle calculated as volume of sales multiplied by indicative retail margin.

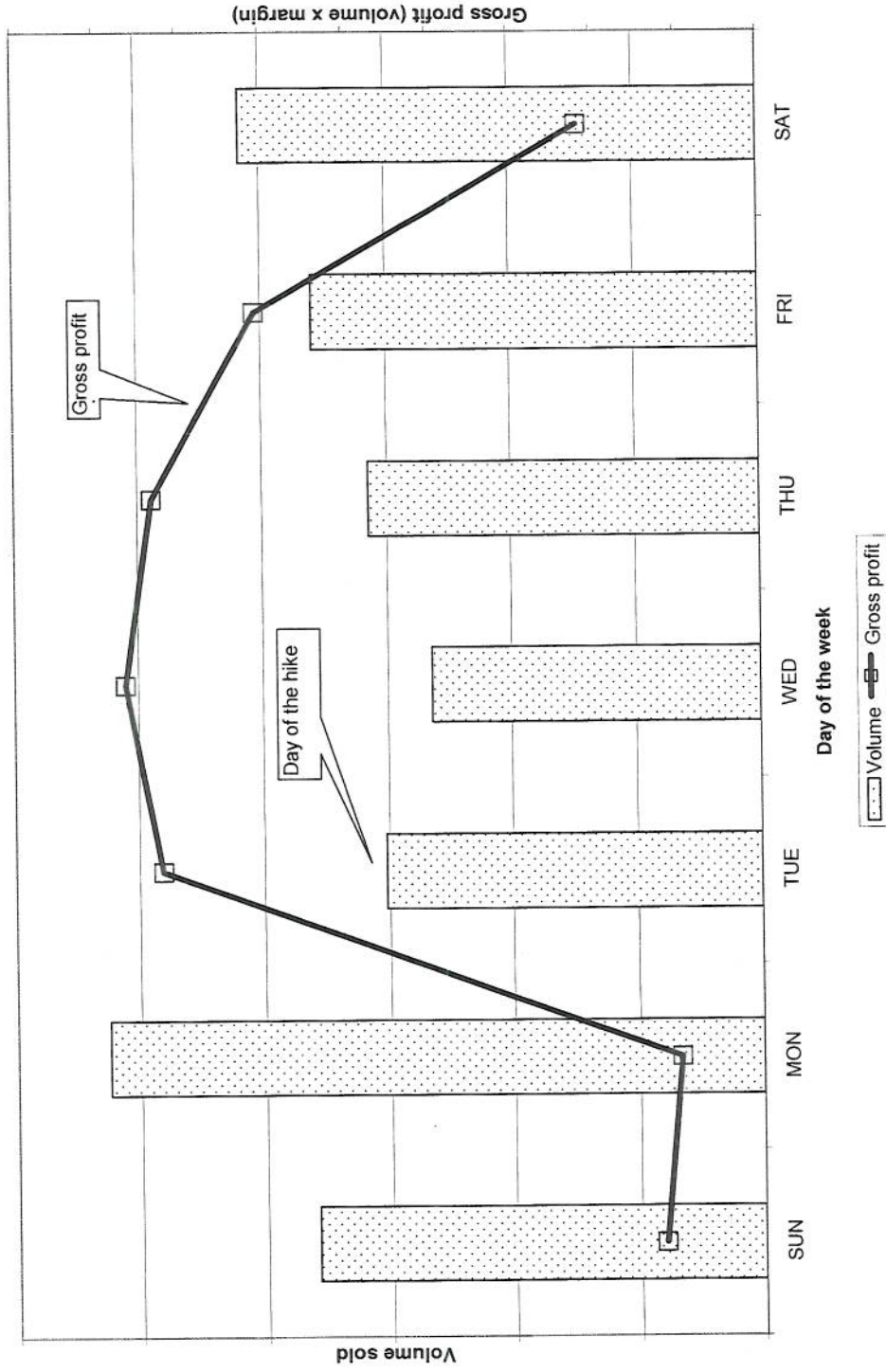
On Tuesday, Wednesday and Thursday, the volume of ULP sold by the retailer is significantly reduced. However, the increased price ensures that gross profits on those days were maximised despite the low volume of sales. The magnitude of the price increase more than compensates for the loss of volume of sales due to the price hike.

4. Price Sensitivity of Consumers

Volume of sales data were obtained for the Perth and Mandurah areas for 2004 and 2005. The data relating to ULP for the periods October to December 2004 (when regular price cycles were operating) and October to December 2005 (when there were no regular price cycles) were independently analysed. The analysts concluded that price is not an underlying factor for ULP consumption and that day of the week is the main driver for consumption. The independent analysts found no meaningful difference in consumption patterns between 2004 and 2005.

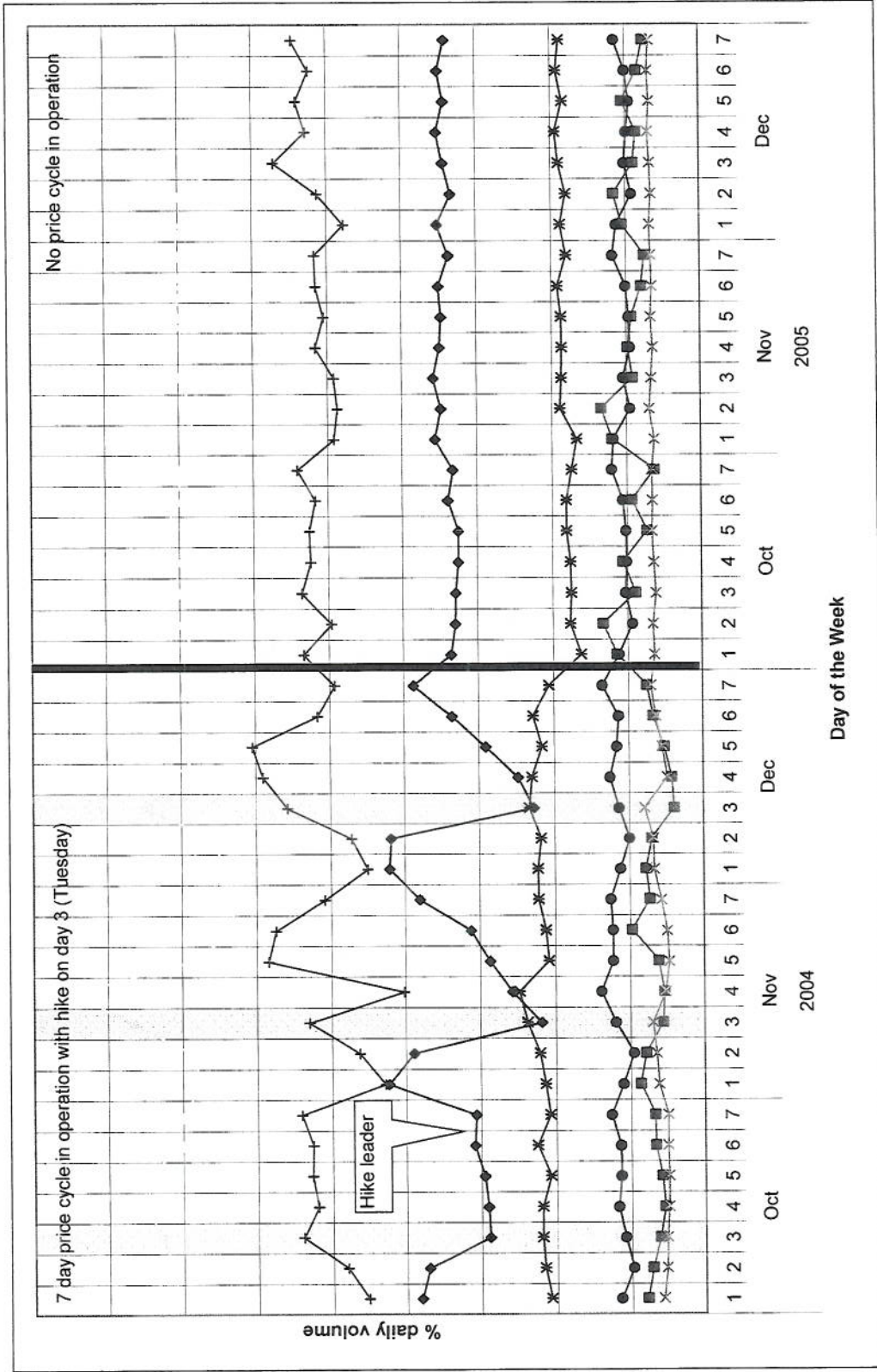
While there is a stable demand profile for ULP based on day of the week, further analysis of the data clearly indicates movement between brands when prices are hiked. Figure 2 in Appendix A depicts the average volume of sales for each day of the week during October, November and December of 2004 when regular price cycles were operating. Price hikes occurred on Tuesdays as shaded on the graph. On the days of the price hikes, there was a significant transfer of volume of sales from the price hike leader to brands that had not yet hiked their prices. This regular and pronounced transfer of volume is not evident for 2005 when there were no regular price cycles.

Figure 1: Gross profit versus volume for hike leader



Source: Fuelwatch Volume of Sales data Oct – Dec 2004

Figure 2: Proportion of daily ULP volume by retailer





Department of Consumer
and Employment Protection
Government of Western Australia
Consumer Protection Division

Additional Information

**for the Senate Inquiry into the
Proposed National Fuelwatch Scheme:
Consumer Surveys**

July 2008

Additional Information for the Senate Inquiry into the Proposed National Fuelwatch Scheme: Consumer Surveys

PRINTED: 24 July 2008; 3:19:37 PM

LOCATION: CP01209/2008, A649523

1. Background

Since 2004, the Department of Consumer and Employment Protection (DOCEP) has engaged consultants to undertake, evaluate and report the results of surveys to gauge, in broad terms, consumers' awareness of, interest in and perception of the value of the FuelWatch service. The FuelWatch service provides pricing information free of charge to consumers and retailers via a number of media:

- the FuelWatch website;
- an automated telephone service;
- daily evening news on Channel 7; and
- *The West Australian*.

The similarity of each survey allows for comparison to be made, namely:

- to measure two approved performance indicators (see below); and
- to gauge consumers' responses to a range of issues, to help inform policy and other decision making.

The two key performance indicators measured in each survey are:

- the percentage of motorists aware of fuel pricing information provided by the FuelWatch service; and
- the percentage of motorists aware of the FuelWatch service who are satisfied with the services provided.

In each survey, at least 400 telephone interviews were conducted with consumers who were 18 years and over who personally paid for their own fuel. The interviews for each survey were conducted across both metropolitan Perth and regional Western Australia.

2. Survey Results

2.1 Awareness of FuelWatch

2004:

Of the 401 telephone interviews conducted in 2004, 88% of respondents were aware of FuelWatch providing fuel information.

2005:

In 2005, 91% of all 452 respondents to the telephone survey were aware of the service FuelWatch provides.

2006:

95% of all 408 respondents, in 2006, were aware of the FuelWatch service.

2007:

In 2007, 92% of the 400 respondents surveyed indicated that they were aware of FuelWatch.

Figure 1 provides a comparison of the level of consumers' awareness of the FuelWatch service between 2004 and 2007. The results for each year are statistically similar.

2.2 Usage and Satisfaction of FuelWatch

Figure 1 also presents the level of usage of the FuelWatch service, and the level of satisfaction with the service for each year between 2004 and 2007.

2004:

In 2004, 72% of the 401 respondents (or 297 respondents) surveyed reported that they used the FuelWatch service. Of these 297 respondents, 77% indicated the FuelWatch service as useful.

2005:

The same survey undertaken in 2005 shows 72% of all 452 respondents (=323 respondents) using the FuelWatch service. The proportion of respondents who used the FuelWatch service and were satisfied with the service was 70%.

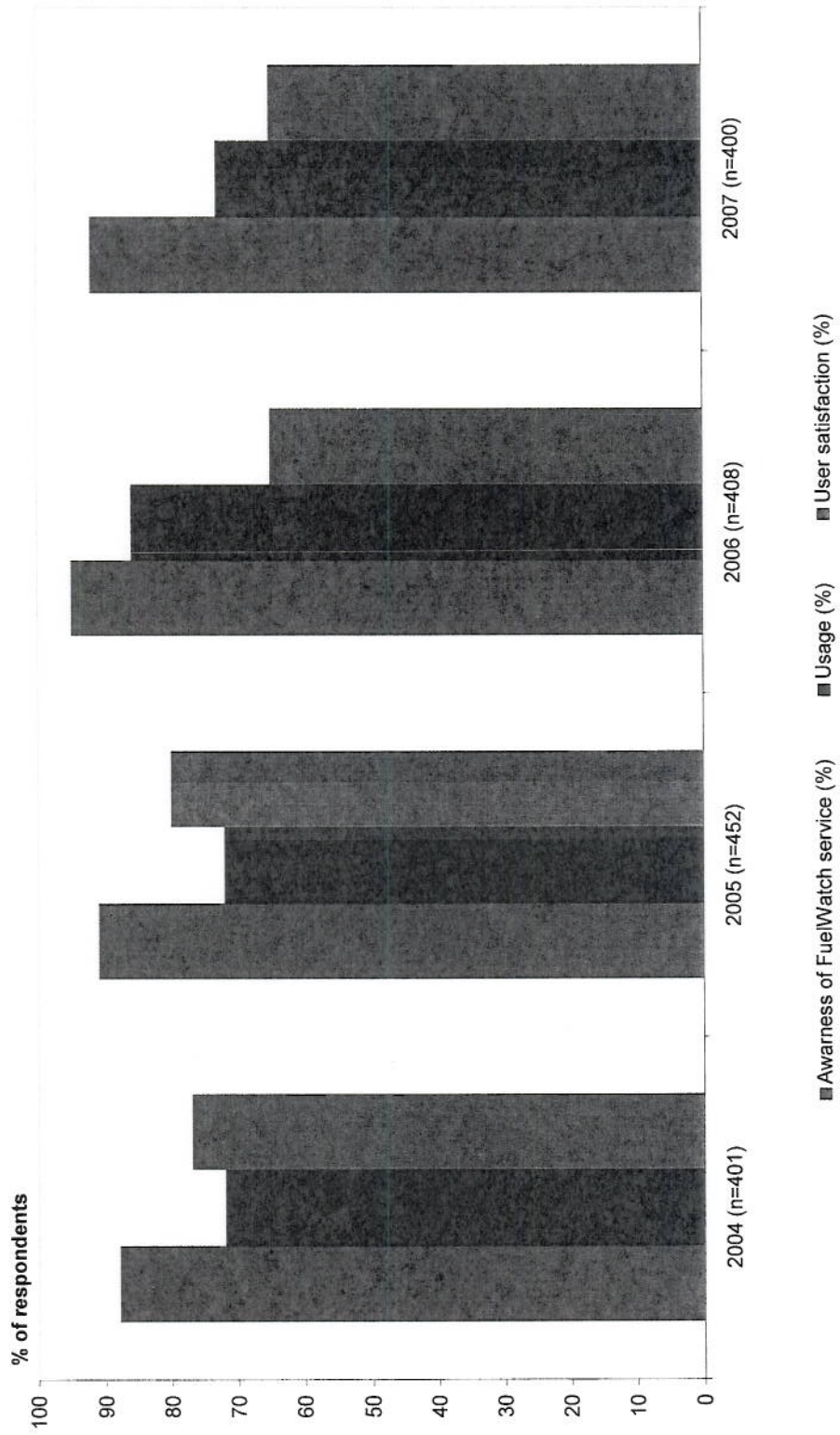
2006:

Of the 408 respondents interviewed in 2006, 86% used the FuelWatch service. 65% of those who used the service were satisfied with it.

2007:

73% of the 400 respondents surveyed in 2007 reported that they used the FuelWatch service. 65% of those who used the service were satisfied with it.

Figure 1: Summary of FuelWatch consumer surveys



ATTACHMENT C

Additional information to Table 2 of Submission

Average of daily fuel price difference between the highest- and lowest-priced sites (cents per litre)

	2001	2002	2003	2004	2005	2006	2007	2008 (YTD)
<i>Busselton</i>								
ULP	7.8	4.3	4.6	7.4	6.7	5.3	5.1	4.9

ATTACHMENT D

Message

- Very simply > stick with issues that affect Tasmania and those that you have some "competent" knowledge about.
- We are more than satisfied with the "FuelWatch" system in Western Australia as operated for the last 4 years and the departmental personnel who administer its operation.
- Our passenger car operates on "dual fuelled - autogas/petrol". We have a choice of one dozen [12] filling stations within a 15/20km radius and always consult their website for the cheapest.
- [Yes we keep very accurate records of both our expenditure and usage > the increase for Apr/May/June 2007 compared to same period 2008 has resulted with an increase of 23.85%].
- You also know very well that this issue is out of control globally and the Australian Government is powerless to intervene.
- We are still the fourth cheapest nation state globally as far as what we pay for our fuels [petrol, diesel, autogas].

Please consider your statements more carefully into the future!!!!!!

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In spite of negative media comments, I believe the FuelWatch service is invaluable!

With a little forward planning I refuel at my "best-available", tying in with either my work or trekking around the metro area for our kids sports. That always gets me fuel in the lower quartile of pricing.

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Fuelwatch may not mean cheaper fuel in WA but the process is certainly an enormous help in shopping around for the cheapest outlet in a given area. Please ensure the service is retained and not withdrawn because of Federal Govt. publicity! A great government service !!

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Dear Friends

I was appalled to hear on the radio yesterday some senator saying that the WA FuelWatch system had not done anything to reduce petrol prices. As is the case with many of these people who think they know but do not, there is more to the apple than meets the eye.

I have found the system to be very beneficial in enabling me to get the best fuel price without wasting fuel driving from petrol station to petrol station or spending time and money on the telephone. Often I have been able to save up to 10 cents per litre just by using the system. I do not have to travel any further from my home but just in a different direction.

Perhaps the senator should do some more homework before he makes a pronouncement. After all, it is the amount of money that goes out of my pocket on fuel that matters, not the price at the bowser! Please pass this on to those who make decisions.

Keep up the good work.

=====Hello,

I have seen considerable coverage about discontinuing this service but would like to say that I find it invaluable and would be disappointed to see it go.

Sincerely,

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Please continue this service. I think it's invaluable and would hate to see it go simply because the eastern states interest groups don't see any value in it. Why don't you survey users for their comments/reactions?

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