



**PILBARA  
REGIONAL  
COUNCIL**

*Leading the Way . . .*

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*Pilbara Wealth  
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AL3/10 09/001

7<sup>th</sup> July 2008

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

Dear Senator

## **RE: INQUIRY INTO NATIONAL FUELWATCH**

Thank you inviting the Pilbara Regional Council to submit a submission to the Senate Standing Committee on Economics regarding its inquiry into Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008.

### **Preamble**

The Pilbara Regional Council is a statutory local government in accordance with the Western Australian Local Government Act 1995. The Shires of Ashburton, East Pilbara and Roebourne, and the Town of Port Hedland established the Pilbara Regional Council in May 2000 to address issues of regional interest and concern. Each member Council elects two Councillors, who meet together to form the Pilbara Regional Council.

The eight Councillors of the Pilbara Regional Council elect a chairperson. I am the current Chairperson of the Pilbara Regional Council and I am also the Shire President of the Shire of East Pilbara.

The Pilbara Regional Council Executive consists of the four Member Council Chief Executive Officers (CEO) and the Executive Officer, Mr. Adrian Ellson, of the Pilbara Regional Council. The position of CEO of the Pilbara Regional Council is rotated on annual basis between the four CEOs. The current CEO of the Pilbara Regional Council is Mr. Allan Moles, who is also the CEO of the Shire of Roebourne.

### **Introduction**

As you would be aware, Western Australia has had a Fuelwatch program for a number of years now, and the Australian Competition & Consumer Commission (ACCC) identified in its December 2007 Report on Petrol Prices and Australian Consumers that:

*"If one of the big retailers wants to raise prices, they have sufficient virtual real time information to understand what their competitors' response will be—they can deal with it very quickly*



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*and adjust their pricing accordingly. This would seem to reduce incentives to take the initiative to decrease prices. Instead it is better to wait for a competitor to move.*

*Significant differences in information levels between buyers and sellers can make for less competitive structures. The inquiry spent significant time trying to assess what options were available to solve this problem. One would be to curtail the way electronic subscription services are used by the major players in the market. Alternatively, information available to consumers could be enhanced by adopting, on a national basis, a scheme similar to FuelWatch in Western Australia. However, to introduce such a scheme on a national basis would be a significant commitment. In the end, the ACCC decided that while we could suggest options and at least provide a preliminary analysis, a more substantive assessment would have to be undertaken within government.”<sup>1</sup>*

The Pilbara Regional Council believes that the proposed Bills to monitor retail fuel prices in defined declared areas will have negligible impact in the metropolitan areas and no impact in the regional, rural and remote areas on reducing the price of domestic (public) petrol, diesel and LPG. This view is based on the structure for providing fuels to domestic users, particularly in the Pilbara region and the performance and outcomes of the Western Australian Fuelwatch program.

#### **Provision of Fuels to Domestic Users**

The Pilbara Regional Council’s understanding is that the provision of all domestic and most industry fuels to the North West of Australia is dominated, and by default, controlled by BP Australia. BP Australia own (or lease) and operate all the port terminals for receiving fuels in Geraldton, Dampier, Port Hedland and Broome. BP Australia sources fuels from Singapore, Japan, Korea, Taiwan, Kwinana and other locations around the world on an as needed and best price basis. These fuels are shipped to the regional port terminals in BP ships, owned and contracted.

As the ACCC found during its inquiry “*the major refiners have established a comfortable oligopoly. This begins with what are called ‘buy–sell’ contracts—the way that the refiners sell their fuel to satisfy each others requirement, which then has an impact through the whole distribution chain throughout Australia.*”<sup>2</sup> Accordingly, Caltex and Shell wholesale depots in the Pilbara obtain their fuels through BP ships and port terminals. To the best of Council knowledge neither company uses its own ships to deliver fuels to the Pilbara for on-selling to industry and the public.

Fuel merchants, such as Link Energy, Reliance Petroleum and others decant fuels from the BP, Shell and Caltex wholesale depots and distribute fuels to industry and the domestic services stations. In some cases the fuel merchants also own the domestic services stations. The service stations sell the fuels to the public.

<sup>1</sup> Australian Competition & Consumer Commission, Report on Petrol Prices and Australian Consumers, December 2007, Page VI.

<sup>2</sup> IBID, Page V.



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## The Western Australian Fuel Watch Program

The Western Australian Fuel Watch Program acknowledges that there are many factors attributing to the price of fuel at service station pumps and monitors these on a daily basis, in particular the Singapore Benchmark.<sup>3</sup> The ACCC likewise monitors the same factors and has expressed significant concern in early 2007 and again in February 2008 regarding significant divergences between Australian retail pricing of fuel and that of the Singapore Benchmark.<sup>4</sup> The issues of refiners' pricing strategies, along with freight and wharfage costs; wholesaler and retailer profits; and taxes affect the price of fuels in the Pilbara, not consumer perceptions generated from programs such as Fuelwatch.

For example, on 2<sup>nd</sup> July 2008 the average price of ULP per litre in Perth was 157.5, where as in the Pilbara it was 180.8. For diesel the average price per litre in Perth was 187.0, where as in the Pilbara it was 201.1<sup>5</sup>. However, the Fuelwatch Program only records the prices of fuel at Port Hedland, Karratha, Newman and one service station 160km south of Newman. The towns of Tom Price, Paraburdoo, Onslow, Marble Bar, and Nullagine; and the remote indigenous communities and isolated travel stops are not included. Inclusion of these fuel outlets would see the average price of diesel, the predominate fuel in the Pilbara, increase to around 215.0.<sup>6</sup>

In addition to the above, the pricing of all fuels at independent fuel outlets was higher than that of BP, Caltex and Shell. Notwithstanding, that all fuels come to the Pilbara via the one source, the independent fuel outlets all cited issues of having to pay higher prices than that of the BP, Caltex and Shell chain outlets. Furthermore, the best price for diesel in the Pilbara on 2<sup>nd</sup> July 2008 was in Port Hedland where the three outlets of BP, Shell and Caltex sold diesel at the same price of 197.5 per litre. Similarly all the service stations (BP, Shell and Caltex) in Karratha sold diesel at the same price of 198.9 per litre.<sup>7</sup>

With the exception of Marble Bar, all the other towns, remote communities and isolated travel stops cited above have only one service station outlet, and therefore no competition or incentive for driving fuel prices down. This is a significant point because the Western Australian Fuel Watch program is predicated on taking advantage of the Fuel Price Cycle and competition between service stations within the cycle.

The Pilbara Regional Council finds that there is no evidence to suggest that Fuelwatch has in any way combated increasing fuel costs or the oligopoly that sets these prices. Similarly, Fuelwatch itself identifies that its program provides Perth motorists with advance warning of fuel price movements within the Fuel

<sup>3</sup> Fuelwatch Website [http://www.fuelwatch.wa.gov.au/info/dsp\\_petrol\\_prices.cfm](http://www.fuelwatch.wa.gov.au/info/dsp_petrol_prices.cfm) of 2 July 2008

<sup>4</sup> Australian Competition & Consumer Commission, Briefing, dated February 2008, Page 1

<sup>5</sup> Fuelwatch Websites <http://www.fuelwatch.wa.gov.au/index.cfm?pref=metro&date=Today> and <http://www.fuelwatch.wa.gov.au/> of 2 July 2008.

<sup>6</sup> The Executive Officer conducted a ring around of service stations to find out the sale price of ULP and Diesel for 2<sup>nd</sup> July 2008.

<sup>7</sup> Fuelwatch Website [http://www.fuelwatch.wa.gov.au/prices/dsp\\_search\\_results.cfm?Search=chepestcoun...](http://www.fuelwatch.wa.gov.au/prices/dsp_search_results.cfm?Search=chepestcoun...) of 2 July 2008



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Price Cycle and that this cycle does not occur outside metropolitan areas.<sup>8</sup> On this basis it would be inappropriate to include regional, remote and rural service stations with ineffective overheads.

### **Pilbara Regional Council Concerns**

When considering the Pilbara, the Senate Select Committee should be cognizant that the Pilbara is, in many ways abnormal to the remainder or at extreme end of Australia when it comes to cost of living. The paragraphs below from the Regional Price Index 2007 produced by the Department of Local Government and Regional Development (DLGRD) demonstrate why.

*“The 2007 Regional Prices Index for Western Australia was produced by the Department of Local Government and Regional Development. This Prices Index should be considered in isolation from any other index past or present, as it compares a unique basket of goods and services using a unique set of commodity weights.*

*The aim of the project was to price a basket of goods and services, of 250 items, in Perth and compare this to the same goods and services priced at 21 locations around the State, as a means of gauging the differences in the cost of goods and services. The differences between these costs were measured using indices, with Perth being the base (100).*

*The Pilbara was +20.1 per cent higher than Perth, resulting from the weighted average value for Karratha, which was +23.1 per cent higher and Port Hedland +17.6 per cent greater than Perth.*

The cost of transport is a significant contributor to the increased cost of living in the Pilbara and the proposed National Fuelwatch program, in its current form, will not aid in combating the ever increasing price of fuels and flow on effects.

The Pilbara Regional Council's initial observations of fuel pricing are that:

The cost to import and land fuels in the Pilbara should be cheaper than to import and land fuels in Perth, as the Pilbara is closer to Asia and appears to have lower port costs than those in Fremantle and surrounds.<sup>9</sup> However, fuel prices are higher in the Pilbara than in Perth, which is attributable to Perth having direct access to Refiner fuel and pricing. Therefore fuel being delivered to the Pilbara is being priced around cost recovery within the Pilbara rather than across the State or Australia.

The average cost of fuels in Goldfields-Esperance is also cheaper than that in the Pilbara, albeit that fuel in the Goldfields has to be handled (cantering, storing and de-cantering) at least once more than in the Pilbara because of its remoteness from ports.<sup>10</sup> Initial thought is that the Goldfield prices should be higher than those in the Pilbara.

<sup>8</sup> Fuelwatch Website [http://www.fuelwatch.wa.gov.au/info/dsp\\_price\\_cycles.cfm](http://www.fuelwatch.wa.gov.au/info/dsp_price_cycles.cfm) of 2 July 2008

<sup>9</sup> Comparison of Port Hedland Port Authority and Fremantle Port Authority Fees and Charges effective of 1<sup>st</sup> July 2008; however, these are structured differently and therefore difficult to derive absolute certainty as to which is the cheaper port for ships to visit.

<sup>10</sup> Fuelwatch Websites <http://www.fuelwatch.wa.gov.au/index.cfm?pref=country&date=Today> of 2 July 2008.



The Council has no visibility of the price of fuels being offered to and paid by the mineral and petroleum resource companies, and if any preferential treatment given to them is adversely affecting fuel prices being offered to the public. and

The price differential between Perth and Pilbara pump prices has narrowed in the three months between March 2008 and June 2008, particularly for diesel.<sup>11</sup> The cause for this is unknown.

The current proposed Bills only provide for the reporting and monitoring of fuel prices in declared areas. As demonstrated above, the monitoring of retail fuel prices in declared areas will have negligible impact in the metropolitan areas and no impact in the regional, rural and remote areas on reducing the price of domestic (public) petrol, diesel and LPG for many different reasons. For any fuel watch program to be effective, it must capture, monitor and make public the following prices on a daily basis:

Refiners sale price (Australian and Overseas),  
Wholesalers landed cost price,  
Wholesalers' sale price,  
Fuel Merchant sale price, and  
Service Station retail price.

These prices should also include a breakdown between operator costs and Government levies and taxes. The whole pricing process must be fully transparent to offset the pricing and marketing strategies of the Australian fuels oligopoly. The ACCC would have daily visibility of corporate pricing and can react swiftly to any abnormal divergences.

#### **Remote Area Tax (Offset)**

In addition to the above this transparency will make it obvious to all, that people, businesses and local governments in remote areas, which include the Pilbara region, are being exposed to and are paying higher Government fees, charges, levies and taxes, compared to those people living in metropolitan areas. And, for equity reasons why people residing in remote Australia should be able to claim a remote area tax offset (or zone allowance) that is indexed each year according to some form of remote price index to offset paying higher taxes due to increased costs of goods and services.

The Pilbara Regional Council strongly believes that the Commonwealth Government should have standard processes for collecting levies and taxes but also be providing fiscal relief to the Pilbara residents, and other Australians living in remote areas for the higher cost of living that they experience, noting that these same people endure harsher living environments whilst strongly contributing to the Country's fiscal economies and food chains.

There has been no increase in the rebate commensurate with the increases in cost of living since 1993 and the doubling of the Zone Allowance for the residents of the Pilbara would have a significant impact in offsetting the inflated prices caused by increasing fuel prices and other factors.

<sup>11</sup> Fuelwatch Websites – four searches [http://www.fuelwatch.wa.gov.au/prices/dsp\\_hist\\_avg.cfm](http://www.fuelwatch.wa.gov.au/prices/dsp_hist_avg.cfm) of 2 July 2008

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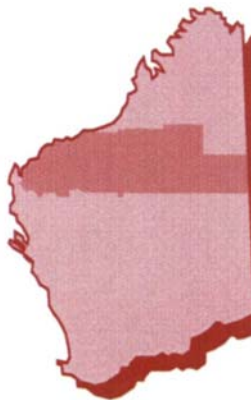
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Any assistance the Committee can provide in encouraging the Commonwealth Government to increase the Zone Allowance through this Inquiry will be greatly appreciated.

**Concluding Remarks**

The Pilbara Regional Council finds that there is no evidence to suggest that the Western Australian Fuelwatch has in any way combated increasing fuel costs or the oligopoly that sets these prices. Similarly, Fuelwatch itself identifies that its program provides Perth motorists with advance warning of fuel price movements within the Fuel Price Cycle and that this cycle does not occur outside metropolitan areas. On this basis it would be inappropriate to in cumber regional, remote and rural service stations with ineffective overheads.

For any fuel watch program to be effective, it must capture, monitor and make public the following prices on a daily basis:

- Refiners sale price (Australian and Overseas),
- Wholesalers landed cost price,
- Wholesalers' sale price,
- Fuel Merchant sale price, and
- Service Station retail price.

The proposed National Fuelwatch Bills need to be amended to include the capture and public monitoring of the above fuel prices. The proposed Bills also need to provide the ACCC with the necessary powers to react quickly to any anomalies in fuel pricing.

The Pilbara Regional Council's point of contact regarding this submission is the Executive Officer, Mr. Adrian Ellson and he can be contacted on 08 9187 0687, 0428 940 632, [prc@roebourne.wa.gov.au](mailto:prc@roebourne.wa.gov.au) or [usellsons@dodo.com.au](mailto:usellsons@dodo.com.au); however, his mobile phone and personal e-mail address are preferred because of his mobility.

Yours sincerely

Lynne Craigie  
Chairperson