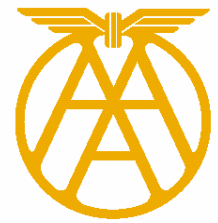


11 July 2008

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600



**AUSTRALIAN
AUTOMOBILE
ASSOCIATION**

Constituent Members

Dear Sir/Madam,

Inquiry into National FuelWatch

The Australian Automobile Association (AAA) welcomes the opportunity to make a submission to the Inquiry into FuelWatch being undertaken by the Standing Committee on Economics.

AAA represents more than 6 million members through its constituent State and Territory motoring organisations. The cost of motoring is an issue of great importance to our members, and the price of fuel is without a doubt a critical part of this. This Inquiry provides an opportunity for the Committee to generate greater clarity about the issues surrounding the Government's proposal to implement FuelWatch nationally.

Over the years AAA has made submissions to a plethora of fuel price inquiries. AAA and its constituent motoring organisations have also been monitoring and publishing fuel prices on their websites for the past decade, as well as providing advice and comment on prices in the media, with the aim of creating price transparency and empowering motorists.

The data we have collected in this monitoring demonstrates the significant increase in the price of fuel over the years. Figure 1 for example, shows that petrol prices in Sydney rose from 92.2cpl in January 2004 to 150.8cpl in May 2008, an increase of 64%. Although FuelWatch is designed to target the retail end of the fuel market, it is relevant to note that an overwhelming factor has been the increase in the price of oil.



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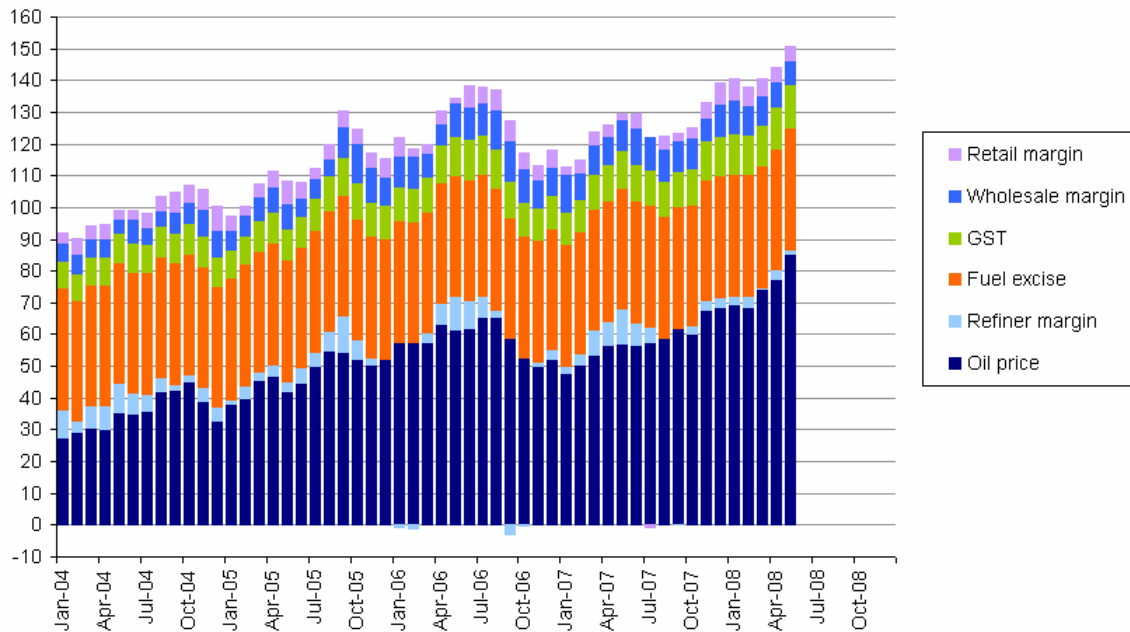
Web: www.aaa.asn.au



WORLD WIDE AFFILIATION THROUGH THE AIT AND FIA



Figure 1 Petrol prices in Sydney (cpl)

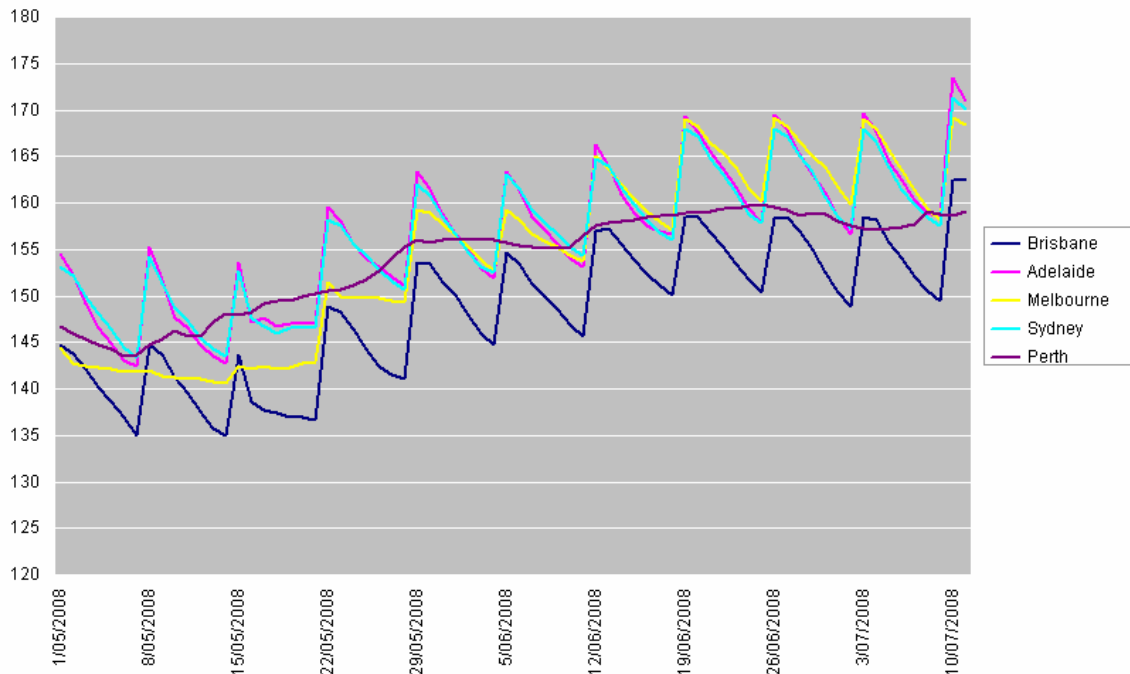


Our most recent submission on fuel prices was made to the ACCC Petrol Price Inquiry in 2007. In that submission, we argued that ACCC should formally monitor prices, costs and profits in the petrol industry, consistent with the prices surveillance provisions in Part VIIA of the Trade Practices Act, and that ACCC should provide simple, straightforward and concise pricing information that is readily accessible to the wider community for a broader range of locations than just the major capital cities.

Late in 2007, AAA welcomed the Government's decision to act on our recommendations by directing the ACCC to formally monitor petrol prices and appointing a Petrol Price Commissioner. We have however also raised with the Government the need for powers to be granted to the ACCC to formally monitor diesel and LPG prices which, like petrol, are rising.

On the question of the Government's more recent announcement that it would expand the Western Australian FuelWatch model nationally, AAA has an open view. Our constituent motoring organisations have a preference to develop their own positions on this, based on the particular circumstances in their respective States and Territories. Evidence that differing circumstances exist can be seen below in Figure 2, which plots average daily petrol prices in the capitals. It shows that since 1 May 2008, prices in the capitals have been subject to varying pricing patterns and levels.

Figure 2 Average daily petrol prices in major capital cities (cpl)



Source: Informed Sources

The motoring organisations' preference is also a reflection of the fact that the likely effects of implementing FuelWatch in different markets are not yet clear. For example, the ACCC is yet to establish whether it was FuelWatch or a number of other factors which caused the establishment of a two-week long price cycle in Perth, as opposed to a one-week cycle which exists in other major capitals (Senate Estimate hearings, 5 June 2008). Consequently, the clubs will be providing their own submissions in addition to the AAA submission.

This preference notwithstanding, there are issues which AAA can address. A key issue is the establishment of clear performance criteria for FuelWatch and an assurance that the program, as an absolute minimum, achieves these.

During Senate Estimate hearings on 5 June 2008, the ACCC explained that FuelWatch is designed to transfer market power from sellers of petrol — oil companies and retailers — to consumers by two means. First, FuelWatch would increase price transparency; and second, consumers can use the information generated by that transparency to their own benefit. The Government has said that motorists can make significant savings by this means (Assistant Treasurer press release, 27 May 2008).

The ACCC has also published information which concluded that *there is no evidence that the introduction of Fuelwatch in Western Australia led to any increase in prices and it appears to have resulted in a small price decrease overall* (Petrol – Further Econometric Analysis Undertaken by ACCC, 29 May 2008).

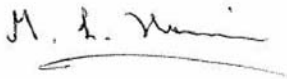
We note that there is a plan to review the effectiveness of FuelWatch twelve months after its implementation. AAA believes that the outcomes of the scheme discussed above: a transfer of market power to motorists which will help them make significant savings; and no increase and potentially a small decrease in prices, are measures by which the success of FuelWatch should be judged in this evaluation. We also expect the evaluation to be comprehensive and transparent.

There are a range of other issues which the Committee will consider in this Inquiry, including the impact of FuelWatch on independent retailers and regional markets. Since these are issues which our constituent motoring organisations may consider in their submissions, we have not taken a position on them here.

However, AAA did commission research from FUELtrac during March 2008 to inform debate. The research examines the impact of FuelWatch — and other factors — on prices in Perth and the duration and amplitude of price cycles, and canvasses possible alternatives to FuelWatch. We have attached this research to our submission for the Committee's consideration.

Should you have any queries relating to this submission, do not hesitate to contact me on 02 6247 7311.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. L. Harris", with a horizontal line underneath it.

Mike Harris
Executive Director