



RAC Submission to the Senate FuelWatch Inquiry

(Senate Inquiry into National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008)

Introduction

The Royal Automobile Club WA (Inc) represents over 680,000 motorists in WA. As part of this role we closely monitor WA fuel prices. The following comments are made in our role as a consumer representative that is completely independent of FuelWatch.

We have not provided comments on the legislative provisions as we are not qualified to do so. However we have provided comment below on how we perceive FuelWatch and its impacts on WA consumers.

The RAC is not advocating for the use of FuelWatch in other states. However we would not want a national scheme to disadvantage WA consumers and diminish the benefits that WA consumers currently enjoy from the WA scheme.

Responses to Issues as Defined by the Terms of Reference

(a) the impact of the proposed FuelWatch scheme on the price consumers will pay for motor fuel (including unleaded petrol, diesel and LPG) in metropolitan areas, regional centres and rural Australia;

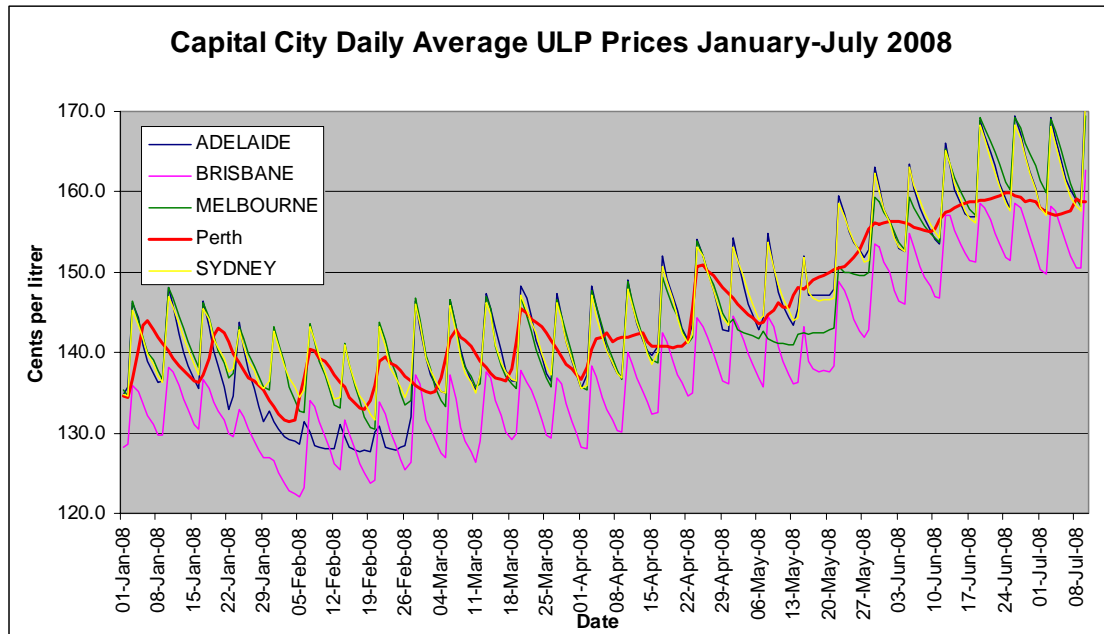
The RAC's monitoring of fuel prices over the past 13 years, including the 5 years prior to the introduction of FuelWatch and the eight years since, has shown that the pattern of prices in Perth has varied from time to time compared with other state capitals. However, there is no evidence that these variations have been caused by the presence of FuelWatch.

The graph below, comparing Perth ULP prices with other capitals for January to June 2008, shows that Perth's average prices are similar to the averages in Melbourne, Sydney and Adelaide.

It should be recognised that the fuel retail market is constantly changing and comparisons over short periods can give a false impressions.

At the time of the ACCC inquiry in 2007, there was a lot of comment about the differences between the Perth price cycle the cycles in other capital cities. However the situation now is very different. The recent rises in the retail price due to international oil prices, have seen the Perth petrol price cycle disappear. Perth prices are, at present, generally comparable to prices at the bottom of the

cycles in Melbourne, Sydney and Adelaide. However it is unclear whether this difference is caused by the presence of FuelWatch.



(b) The economic benefits and costs of the proposed FuelWatch scheme to consumers in metropolitan areas, regional centres and rural Australia;

The major benefit of FuelWatch to the consumer is that they can take advantage of the lowest prices as:

1. They can easily find the location of the lowest price
2. They know that the price will still apply when they get to the site concerned

While every consumer may not take advantage of this service (RAC surveys show that 57% of consumers do, at least some of the time), there are sufficient consumers who do to keep a downward pressure on the market.

In Perth, as in most capital cities, there is a range of prices on any given day – often as much as 15 cents between lowest and highest – regardless of whether the average price is at the top or bottom of the price cycle.

The existence of FuelWatch enables consumers to buy fuel at a favourable price on any day of the fuel cycle.

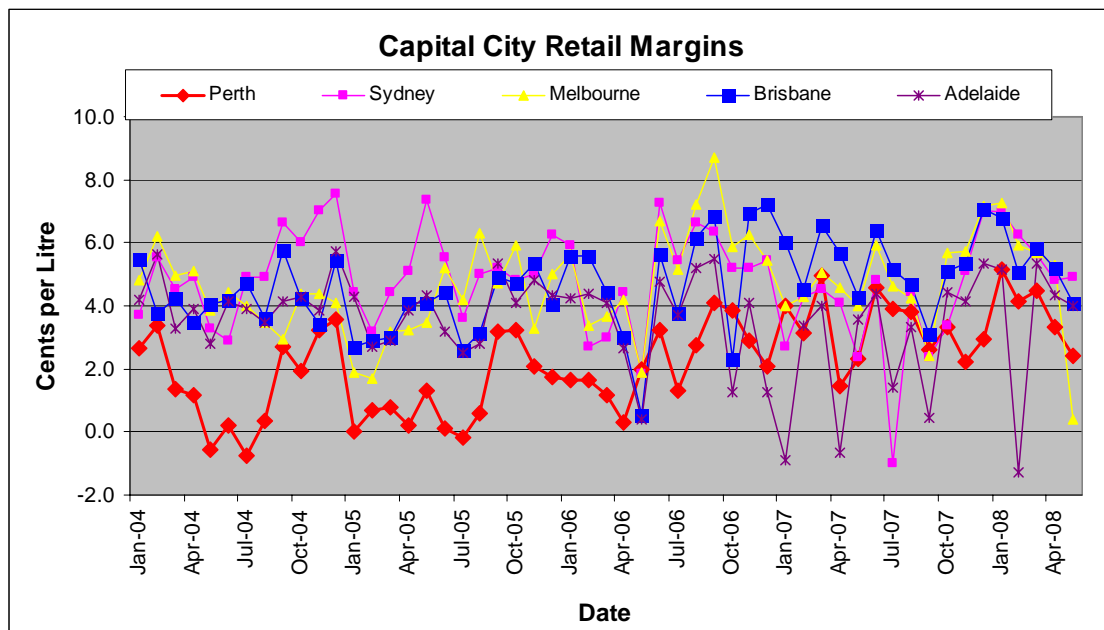
FuelWatch also benefits consumers in regional areas by providing them the ability to readily compare local prices with prices in towns and the nearest state capital. This enables them to make an informed choice on the price of fuel that they choose to buy.

There is no direct cost to the consumer as the cost to operate FuelWatch in WA of approximately \$500,000 p.a. is paid by the State Government. The indirect cost to taxpayers is minimal.

c) Other economic costs of the proposed FuelWatch scheme, including the compliance costs of the scheme for industry, particularly independent retailers;

The compliance costs to fuel retailers are minimal: FuelWatch requires an email or telephone call once a day from each service station to pass on their fuel prices.

There may be some costs to retailers from their inability to either raise or lower prices during the day. However the RAC cannot quantify this. A comparison of the retail margin (the difference between published wholesale and retail prices) in Perth and the other capitals indicates that the difference between cities is small. In fact Perth retail margins have been lower than other capitals for the last four years as, shown by the graph below.



(d) The impact of the proposed FuelWatch scheme on competition between motor fuel retailers and the operation and viability of independent motor fuel retailers;

The Perth market has remained competitive, as evidence by the continuing spread of prices on any given day and the existence of a price cycle. In the RAC's view, the introduction of FuelWatch has not reduced competition between retailers.

In country areas the level of competition is not high. However price differences between retailers remain.

FuelWatch may have made life more difficult for small independent retailers as it imposes more rigour in their setting of prices. However the WA Department of Consumer and Employment Protection advises that the proportion of independent sites in Perth has actually grown by 5% in the time that FuelWatch has been in place. From this we conclude that FuelWatch appears to have had little impact on the viability of independent retailers

The RAC is not convinced that small independents drive competition in the WA market. In its submission to the ACCC inquiry in June 2007, FuelWatch pointed out that the independents generally follow prices down rather than lead them down. The RAC has also noted that in country areas, where there are larger numbers of independents, prices remain stable and price differences between sites do not change.

(e) Intraday price volatility in the retail market, established price cycles in each state and territory, and consumer awareness of price cycles

By design, FuelWatch has stopped intraday price volatility. However the RAC believes that this has been to the benefit of consumers as it is easier for them to take advantage of low prices as they do not change before consumers can get to the retail site.

(f) The impact of FuelWatch on discounting, as well as the amplitude and duration of price cycles, including any penalties that will apply to motor fuel retailers for not fixing prices for 24 hour periods

FuelWatch appears to have had minimal impact on discounting as the price cycle has continued well beyond the introduction of FuelWatch. The amplitude and duration of price cycles in Perth continues to vary over time. Recently there has been a flattening of the price cycle in Perth but it is not clear that it is caused by FuelWatch. At present Perth prices are equivalent to Eastern states prices at the bottom of the price cycle.

There has been a high level of compliance by retailers and enforcement has not been an issue. Only 1-2 infringements a year are issued for just under 600 retail sites.

(g) The potential use under the FuelWatch scheme of sophisticated pricing strategies by motor fuel retailers who have more than one retail outlet, and how they may take advantage of the 24 hour rule

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.

(h) Independent analysis of the overall economic benefits and costs of the proposed FuelWatch scheme;

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.

Analysis of Perth prices using FuelWatch and Informed Sources data by the ACCC has not proven any increase in prices in comparison with other capitals. On the other hand, WA consumers can benefit from buying fuel at a lower price if they choose to use the information provided by FuelWatch.

(i) Independent analysis of the differences in motor fuel prices between Western Australia and other Australian states and territories, with particular reference to volumetric or consumption-weighted prices; and

The RAC, from its monitoring of fuel prices, is of the view that there is no firm evidence of differences between Perth average prices and those of other mainland capitals that can be attributed to FuelWatch. This monitoring has shown variations in prices and market features occur continuously and conclusions should not be drawn from a short term comparison of only a few months.

For example at the time of the ACCC report, Perth prices were on a two week cycle. However the two week cycle had only been in place for approximately 6 months at the time of the inquiry. The cycle has now changed again and, as mentioned above, has flattened out.

(j) The legal basis for the legislation

At a state level, the RAC does not have any concerns with current legislation on fuel pricing. However, if the Federal government introduces a national scheme the RAC is concerned that the same level of service is provided to WA consumers.

The RAC has not carried out a legal analysis of the proposed legislation.

Summary

The RAC believes that FuelWatch provides an overall benefit to the WA consumer who wishes to find the cheapest fuel.

We do not accept that it has increased prices or reduced competition in the market.

We recognise, however, that the fuel retail markets in each state and territory are different and the success of FuelWatch in WA does not guarantee success elsewhere.

11 July 2008