



Submission
to the

**Standing Committee on Economics
Inquiry into the Proposed National
FuelWatch Scheme**

July 2008

**Royal Automobile
Association of
South Australia Inc.**

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Executive Summary

The Royal Automobile Association of SA Inc (RAA) is South Australia's peak non-government body representing motorists. Our 570,000-plus members – 27 per cent of whom reside in regional South Australia – look to the RAA to represent their interests on a broad range of motoring-related issues, in particular fuel.

The RAA welcomes the invitation of the Senate Standing Committee on Economics to provide comment on the proposed introduction of a national FuelWatch scheme and in preparing this submission, we note the Terms of Reference (TOR) as outlined by the Committee. However, greater attention has been paid to addressing the impact a national FuelWatch scheme would have on South Australian motorists if introduced.

The RAA believes that market forces should dictate the price of petroleum-based products reflecting their cost of production, the cost of supplying products to different markets, and the degree of competition that exists in those markets. A free and open competitive market for petroleum products best serves the interests of consumers.

RAA has long opposed the introduction of a FuelWatch scheme into South Australia (1) due to the absence of comprehensive modelling which shows South Australian motorists would benefit from such a scheme; and (2) on the basis that Adelaide's retail market is highly competitive and operates under a distinct and predictive weekly discount cycle. Indeed Adelaide's discount cycle clearly demonstrates that the price available at the bottom of each week's cycle (Tuesdays) is consistently lower than those prices likely to be available under FuelWatch.

It is important to note that while opposing the introduction of FuelWatch into South Australia, the RAA remains willing to reconsider its position should unequivocal data be provided that clearly demonstrates South Australian motorists will not be disadvantaged under such a scheme.

Analysis of current pricing data suggests SA motorists would be no better off should a national FuelWatch scheme be introduced. In fact, such a scheme has the potential to deliver higher fuel costs.

In each mainland State capital city (excluding Perth), motorists are able to structure their fuel purchasing around regular weekly price movements, referred to as the weekly discount cycle. While RAA recognises this current weekly discount cycle may have its limitations, in South Australia it functions well, is well understood by motorists and is a sign of a highly competitive retail market.

RAA concedes that FuelWatch flattens out the weekly price fluctuation so, potentially, reducing the impact of high highs. But the fortnightly cycle under which FuelWatch currently operates in Perth means that, each week, those motorists that buy fuel weekly (ie the majority) do not have access to the lowest prices possible.

RAA remains concerned that by restricting competition, by banning the intra-day price movements of fuel retailers, motorists will ultimately pay more at the pump – particularly those motorists that shop smart and take advantage of the weekly discount cycle.

According to the ACCC, Adelaide has one of the most competitive retail markets in Australia with retail margins the lowest of any mainland capital during 2006/07. RAA analysis also shows the Adelaide daily price variation, from the lowest to the highest price available, is the smallest of any mainland State capital. Data which indicates Adelaide motorists have plenty to lose if FuelWatch is introduced nationally.

Extensive educating of the South Australian public by the RAA now sees more than 76 per cent of SA motorists (89 per cent in metropolitan Adelaide) aware that Tuesday is the cheapest day of the week to buy fuel, with motorists changing their purchasing behaviour accordingly. This compares favourably with ACCC research which indicates 72 per cent of motorists are price sensitive and buy fuel when it is at its cheapest.

This fact, coupled with the understanding that 76 per cent of motorists buy fuel once a week, means the majority of motorists are buying fuel at the lowest price currently possible, and by removing this distinct weekly price cycle and replacing it with a flatter price structure, astute motorists will inevitably pay more.



RAA also believes FuelWatch will do little to assist regional motorists in their pursuit for cheaper fuel – a view echoed by the ACCC in its report from its 2007 Inquiry into the Price of Unleaded Petrol, when it expressed concern *“that in less competitive markets a FuelWatch type of scheme could lead to higher prices through anti-competitive effects”*.

In fact, a comparison of pricing trends in South Australian regional towns with those of a similar size, population and proximity in Western Australia, illustrates that by stifling the limited competition which currently exists, there is a chance fuel prices may even rise.

RAA believes there is more merit in looking to expand the availability of real-time pricing information to motorists than introducing a national FuelWatch scheme. This option would involve making real-time price information available publicly for each petrol retailer – ideally through a website, managed by the ACCC and/or utilising the Australian automobile clubs.

While many of the mainland State capital city motoring clubs – including the RAA – have been monitoring the petroleum industry to provide a comprehensive fuel advisory and information service to the community for some time, with minor alterations to the way this information is collected and reported, the auto clubs are in the enviable position to provide motorists with a similar degree of consumer information which will be provided under FuelWatch – for a fraction of the price – to enable motorists to make better informed purchase decisions.

While this proposal will not eliminate the weekly price rises encountered in each of the mainland State capitals (excluding Perth), with 76 per cent of motorists aware of the current discount cycle structure, the ACCC and the auto clubs nationally can continue to educate the community about the optimal time to buy.



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1. Introduction

The Royal Automobile Association of SA Inc (RAA) is South Australia's peak non-government body representing motorists. Our 570,000-plus members – 27 per cent of whom reside in regional South Australia – look to the RAA to represent their interests on a broad range of motoring-related issues, in particular fuel.

The RAA welcomes the invitation of the Senate Standing Committee on Economics to provide comment on the proposed introduction of a national FuelWatch scheme. RAA looks forward to this inquiry investigating the perplexed reasoning behind introducing such a scheme nationally and determining the optimal way in which governments can assist to improve transparency within the retail fuel market.

The RAA believes that market forces should dictate the price of petroleum-based products reflecting their cost of production, the cost of supplying products to different markets, and the degree of competition that exists in those markets. A free and open competitive market for petroleum products best serves the interests of consumers.

Through monitoring, data manipulation and analysis of the fuel industry, RAA provides a comprehensive fuel advisory and information service to RAA members, the general public, media, other motoring clubs around Australia, industry stakeholders and the private sector. Somewhat disappointingly, even government agencies approach the RAA for current and historical data, including the Federal Department of Parliamentary Services, the Australian Tax Office, State Treasury and local government as they are unable to easily source this information elsewhere.

The RAA's aim is to make the retail market as transparent as possible to the motoring public, and through our own comprehensive website provides detailed information on all matters relating to fuel, including:

- The cheapest Adelaide fuel locations (updated daily in the morning and afternoon)
- Daily, weekly, monthly and yearly petrol, diesel and LPG price data
- Industry background, pricing and taxation fact sheets and FAQ responses
- Detailed fuel supply and demand analysis
- Current issues and breaking news
- Links to relevant industry sites and sources; and
- A direct question function.

As part of the Association's fuel monitoring role, the RAA collects and analyses the following fuel information:

- Daily crude oil price in US and Australian dollars (Tapis and WTI)
- Daily Australian exchange rate
- Adelaide average daily ULP, Diesel, LPG, PULP and E10 prices
- Daily Terminal Gate Prices (TGP) – ULP, PULP and Diesel
- Refining reference price for ULP, PULP and Diesel
- Daily Singapore parity price (MOGAS) in Australian dollars for ULP and Diesel
- National daily average for each fuel type (ULP, Diesel and LPG)
- National monthly average for each fuel type (ULP, PULP, Diesel and LPG)
- Weekly average ULP price for 10 regional South Australian towns
- Monthly average ULP price for 10 regional South Australian towns
- Monthly Saudi Aramco parity price in Australian dollars for Propane and Butane (LPG)
- Monthly LPG wholesale price throughout SA
- International monthly fuel price comparison of OECD nations
- Monthly National and State fuel consumption data
- Monthly Australian petroleum products production, refinement, import and export volumes
- Weekly public shipping movements

On average, the RAA Public Affairs department would field approximately ten phone calls per day from RAA members and the general public on fuel-related issues. During peak periods (periods of intense media coverage and speculation), the Public Affairs department would take one telephone call every 10 minutes and receive 10-15 media and stakeholder enquiries per day.

2. Terms of Reference

In preparing this submission, we note the Terms of Reference (TOR) as outlined by the Senate Standing Committee on Economics, however, greater attention has been paid to addressing the impact a national FuelWatch scheme would have on South Australian motorists if introduced.

The submission will, from the RAA perspective, address the potential price implications a national FuelWatch scheme will have on South Australian motorists; its likely impact on established price cycles and their amplitude; the cost implications of introducing such a scheme nationally; and how FuelWatch could be enhanced to provide motorists with the relief so many are seeking from record fuel costs.

3. Background

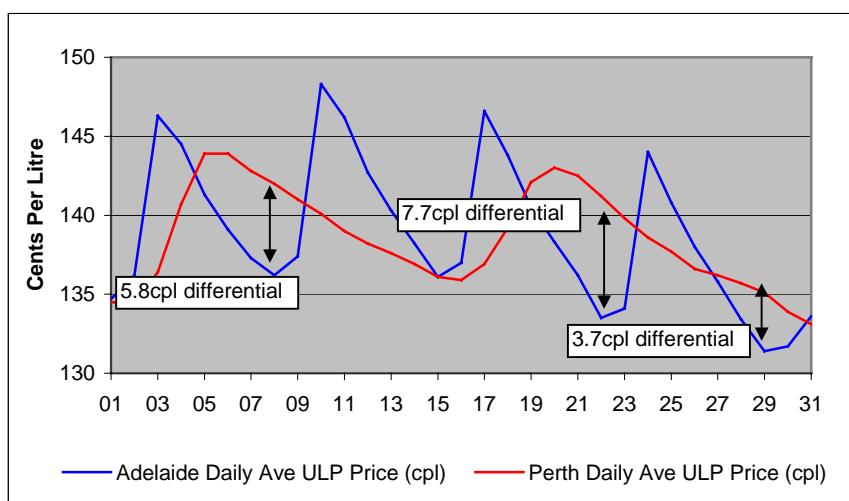
FuelWatch is a fuel monitoring service introduced by the Western Australian Government in January 2001 in response to a Parliamentary Select Committee that investigated the (then) intra-daily price changes being experienced by Western Australian motorists and that State's city-country price differential. In essence, FuelWatch requires Western Australian fuel retailers to notify and fix their fuel prices for a 24-hour period. These prices are then communicated to road users via a dedicated website or email or sms service.

At the time of FuelWatch's introduction into Perth, RAA recognised that the retail fuel market in Western Australia was highly dysfunctional and needed attention. Retail pricing did not follow a distinct weekly discount cycle – as was being experienced throughout the rest of mainland Australia – with petrol prices in Perth fluctuating wildly on a daily basis by as much as 10 and 11 cents per litre (cpl).

Since the Western Australian Government introduced FuelWatch in 2001, various State and Federal Liberal, Labor and Independent MPs have expressed interest in seeing such a scheme introduced in South Australia – and more recently nationally – with a number having sought the RAA's views.

RAA has long opposed the introduction of a FuelWatch scheme into South Australia (1) due to the absence of comprehensive modelling which shows South Australian motorists would benefit from such a scheme; and (2) on the basis that Adelaide's retail market is highly competitive and operates under a distinct and predictive weekly discount cycle. Indeed Adelaide's discount cycle clearly demonstrates that the price available at the bottom of each week's cycle (Tuesdays) is consistently lower than those prices likely to be available under FuelWatch, as illustrated in Chart 3.1.

Chart 3.1 - Price Cycles in Adelaide and Perth – January 2008





RAA understands FuelWatch was introduced into Western Australia to correct a dysfunctional retail fuel market and concedes subsequent price reductions followed. However, it is irresponsible and misleading to imply (as some FuelWatch supporters have) that a similar result is likely to be realised should the scheme be introduced nationally. Truly, the price reductions generated in Western Australia are not savings, but a price *correction*, which has simply brought Western Australian average monthly retail prices into line with the rest of mainland Australia.

It is important to note that while opposing the introduction of FuelWatch into South Australia, the RAA remains willing to reconsider its position should unequivocal data be provided that clearly demonstrates South Australian motorists will not be disadvantaged under such a scheme.

4. FuelWatch a General Overview

Australians now spend more of their income on petrol than they did five years ago as increasing fuel costs continue to outstrip wage growth.¹

Australian Bureau of Statistics figures show that in the five years to March 2007, average full time weekly earnings rose by 24.7 per cent. Over that period, automotive fuel prices rose at almost double the earnings rate, (43.4 per cent), and three times inflation (13.9 per cent). The rise in price for automotive fuels was second only to the rise in the price of child care (up 86.1 per cent).

With increasing fuel costs (in particular since the beginning of 2008) now creating considerable angst in a community already sensitive to rising fuel prices, it is positive to see the Federal Government acting swiftly in an attempt to address and alleviate this sentiment. While the RAA welcomes and strongly supports recent announcements which have led to the Australian Competition and Consumer Commission (ACCC) being granted the additional powers required to formally monitor petrol prices and the appointment of Patrick Walker as the nation's first Petrol Commissioner, concern exists at the Government's haste to introduce a national FuelWatch scheme in an attempt to drive down retail fuel prices.

When the Prime Minister announced the intention to introduce a national FuelWatch scheme by December 2008, the concept was expressed as a mechanism that would save motorists money each time they purchased fuel, while providing price certainty.

*"The establishment of Australia's first National FuelWatch Scheme will help ensure motorists are not paying a cent more than they have to at the bowser."*²

Prime Minister Kevin Rudd, 15 April 2008

A position subsequently supported by the Minister for Consumer Affairs & Competition Policy, the Hon. Chris Bowen, following intense criticism being levelled at the merits of such a scheme.

*"...there's substantial evidence to show that it (FuelWatch) has reduced petrol prices by about 2 cents a litre (in Western Australia)."*³

*"Two cents a litre (saving), which is the evidence in Western Australia, over a year adds up to a substantial amount of money for motorists across the board."*⁴

Hon. Chris Bowen, 15 & 16 April 2008

¹ Australian Bureau of Statistics - 6302.0 - Average Weekly Earnings; 6401 - Consumer Price Index

² Media Release 'A National Fuelwatch Scheme', 15 April 2008

³ Interview with John Stanley 2UE, 15 April 2008

⁴ 'Fears FuelWatch could raise petrol price', AAP, 16 April 2008

However, this position now appears to have changed, with ACCC Chairman Graeme Samuel stating that FuelWatch is not designed to save consumers money, but to give them more power.

*"FuelWatch is not a process whereby consumers might be able to shave one or 1.5cpl of their costs. It's far more important as giving them power to understand when and where they can buy their petrol at the cheapest price."*⁵

ACCC Chairman, Graeme Samuel, 16 April 2008

Recent surveying of SA motorists indicates that only 4 percent believe a national FuelWatch scheme will deliver savings at the pump that so many are desperately seeking.⁶

RAA too believes FuelWatch is not the panacea.

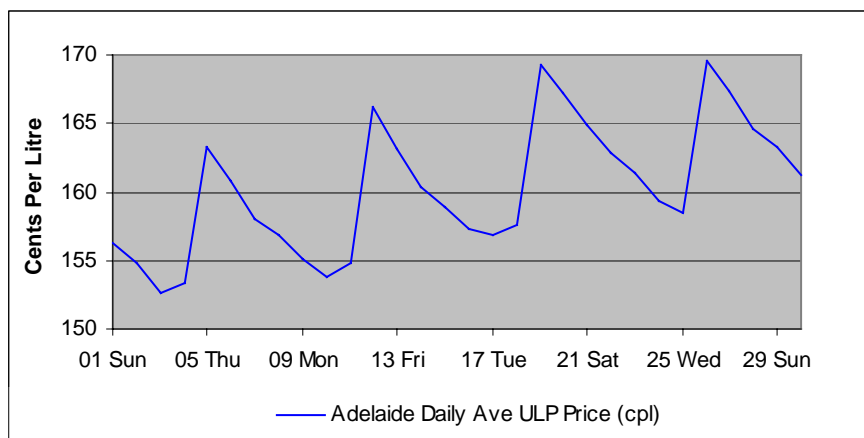
Analysis of current pricing data suggests SA motorists would be no better off should a national FuelWatch scheme be introduced. In fact, such a scheme has the potential to deliver higher fuel costs.

5. FuelWatch and its Impact on Established Price Cycles and their Amplitude

In each mainland State capital city (excluding Perth), motorists are able to structure their fuel purchasing around regular weekly price movements, referred to as the weekly discount cycle. While RAA recognises this current weekly discount cycle may have its limitations, in South Australia it functions well, is well understood by motorists and is a sign of a highly competitive retail market.

While discounting has been a function of these retail markets for many years, in South Australia the predictive weekly nature of this discounting means unleaded petrol is at its "cheapest" every Tuesday before prices rise and peak on Wednesday afternoons, as illustrated in Chart 5.1. The same cannot be said in Western Australia.

Chart 5.1 - Adelaide's Weekly Discount Cycle (June 2008)



RAA concedes that FuelWatch flattens out the weekly price fluctuation so, potentially, reducing the impact of high highs. But the fortnightly cycle under which FuelWatch currently operates in Perth means that, each week, those motorists that buy fuel weekly (ie the majority) do not have access to the lowest prices possible.

⁵ ABC News Australia, 16 April 2008

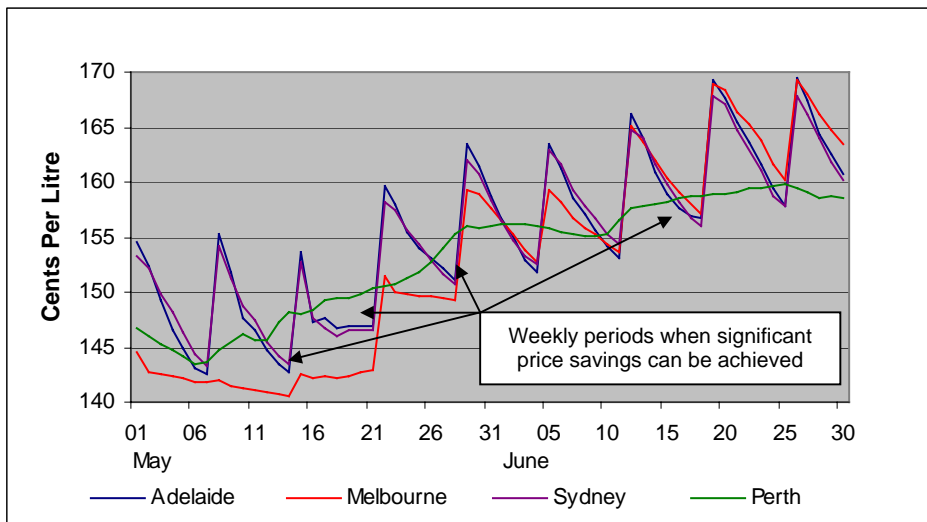
⁶ RAA online research – a survey of 2,660 SA Motorists (results to be published in **samotor** magazine Sept/Oct)



In addition, should FuelWatch be introduced nationally, it will become extremely difficult for the RAA and the auto clubs nationally to confidently advise the community on the optimal time to fill up. Under FuelWatch, you do not know when the cycle has bottomed out until prices have begun to rise, and the “cheapest” day to buy differs from week to week.

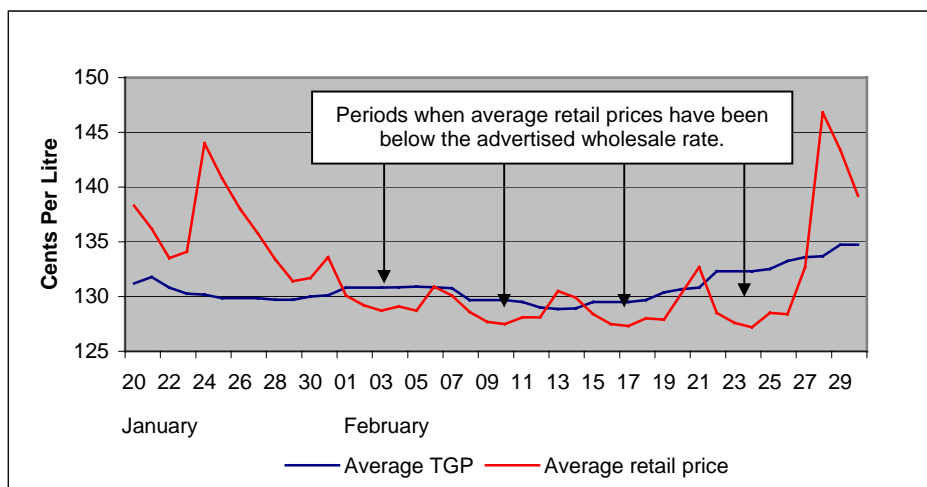
Higher fuel costs also appear to be affecting Perth’s fortnightly price cycle. Analysis of price data indicates Perth motorists have not had a "cheap day" since the beginning of May 2008 – compared to other capital cities – with retail prices appearing to have flattened to follow fluctuations in the wholesale rate (see Chart 5.2).

Chart 5.2 – Capital City Daily Ave ULP Price Movements (May - June 2008)



Also absent in the Western Australian market under FuelWatch is extended discounting. Extended discounting is the term given to a period in time when retail prices remain at discounted levels during those parts of the week when prices would otherwise have risen. Evidence exists to show the Adelaide market has enjoyed five periods of extended discounting since January 2007 with each period lasting around two weeks. As illustrated in Chart 5.3, Adelaide’s most recent period of extended discounting was in February 2008, lasting four weeks, with retail price well below the wholesale rate.

Chart 5.3 – Extended Discounting in Adelaide (February 2008)



6. FuelWatch and its Impact on Price

6.1 Metropolitan price implications

RAA remains concerned that by restricting competition, by banning the intra-day price movements of fuel retailers, motorists will ultimately pay more at the pump – particularly those motorists that shop smart and take advantage of the weekly discount cycle.

RAA also strongly disputes the evidence provided to the ACCC Inquiry into the Price of Unleaded Petrol by the administrator of the Western Australian FuelWatch program, Western Australia's Department of Consumer and Employment Protection (DOCEP), which indicated Perth has been the cheapest capital city to purchase unleaded petrol for the past "few years" and that price transparency – through FuelWatch – was a critical element in placing downward competitive pressure on price levels.⁷

According to the ACCC, Adelaide has one of the most competitive retail markets in Australia with retail margins the lowest of any mainland capital during 2006/07 (see Table 6.1).⁸ RAA analysis also shows the Adelaide daily price variation, from the lowest to the highest price available, is the smallest of any mainland State capital (see Table 6.2). Data, which indicates Adelaide motorists have plenty to lose if FuelWatch is introduced nationally.

Table 6.1 – Average Annual Retail, TGP and Retail Margins (2006/07)

	Average retail price	Average TGP	Differential (margin)
Sydney	123.3	118.5	4.8
Melbourne	123.5	117.4	6.1
Brisbane	116	109.8	6.2
Adelaide	122.4	119.1	3.3
Perth	122.9	118.9	4.0

Table 6.2 – Daily High-Low Unleaded Petrol Price Variations

	May 2008	June 2008
Sydney	14.0cpl	15.7cpl
Melbourne	17.0 cpl	10.2 cpl
Brisbane	12.1 cpl	14.9 cpl
Adelaide	9.3 cpl	7.4 cpl
Perth	14.9 cpl	13.9 cpl

Extensive educating of the South Australian public by the RAA now sees more the 76 percent of SA motorists (89 per cent in metropolitan Adelaide) aware that Tuesday is the cheapest day of the week to buy fuel, with motorists changing their purchasing behaviour accordingly.⁹ This compares favourably with ACCC research which indicates 72 per cent of motorists are price sensitive and buy fuel when it is at its cheapest.¹⁰

This fact, coupled with the understanding that 76 per cent of motorists buy fuel once a week, means the majority of motorists are buying fuel at the lowest price currently possible,¹¹ and as previously illustrated in Chart 5.2, by removing this distinct weekly price cycle and replacing it with a flatter price structure, astute motorists will inevitably pay more.

⁷ ACCC, public hearing transcript, Perth, 28 August 2007.

⁸ Report of the ACCC Inquiry into the Price of Unleaded Petrol (Appendix J, pp 307)

⁹ RAA online research – a survey of 2,660 SA Motorists (results to be published in *samotor* magazine Sept/Oct)

¹⁰ Report of the ACCC Inquiry into the Price of Unleaded Petrol (Table 1.6 – Extent of Buying When Cheapest, pp 287)

¹¹ Report of the ACCC Inquiry into the Price of Unleaded Petrol (Table 1.1 – Frequency of Petrol Purchasing, pp 285)

As outlined in Table 6.3, the regularity of the current discount cycle in Adelaide, which at times sees fuel sold at a heavily discounted rate, is providing motorists with the relief so many desire. On all but two Tuesdays to date this year, average unleaded petrol prices in Adelaide have been significantly lower than those prices available in Perth – where FuelWatch operates.

For the astute motorist filling up each Tuesday in Adelaide this represents an annual saving of \$102¹² and, to use the words of the Minister for Consumer Affairs & Competition Policy, the Hon. Chris Bowen, equates to “a substantial amount of money”⁴.

Table 6.3 – Adelaide v Perth Tuesday ULP Price Comparison

Tuesday...	ADELAIDE			PERTH		
	Ave TGP	Ave Retail	Differential	Ave TGP	Ave Retail	Differential
1 January	133.98	134.7	0.7	133.80	134.5	0.7
8 January	135.90	136.2	0.3	135.80	142.0	6.2
15 January	135.28	136.1	0.8	135.30	136.1	0.8
22 January	130.81	133.5	2.7	131.00	141.2	10.2
29 January	129.71	131.4	1.7	129.90	135.1	5.2
5 February	130.90	128.7	-2.2	131.10	134.5	3.4
12 February	129.00	128.1	-0.9	129.30	137.0	7.7
19 February	130.39	127.9	-2.5	130.80	133.8	3.0
26 February	133.25	128.4	-4.8	133.80	136.8	3.0
4 March	134.71	135.3	0.6	134.80	136.7	1.9
11 March	133.62	135.6	2.0	133.80	139.8	6.0
18 March	135.95	136.5	0.6	136.10	138.0	1.9
25 March	135.48	137.5	2.0	135.60	142.4	6.8
1 April	135.17	135.5	0.3	135.10	136.4	1.3
8 April	137.48	137.6	0.1	137.70	141.6	3.9
15 April	139.71	139.6	-0.1	140.00	140.5	0.5
22 April	140.61	141.4	0.8	140.90	141.3	0.4
29 April	141.64	143.0	1.4	141.97	148.0	6.0
6 May	141.39	142.8	1.4	141.78	143.4	1.6
13 May	143.26	143.4	0.1	143.46	147.0	3.5
20 May	148.29	146.8	-1.5	148.59	149.8	1.2
27 May	150.53	151.9	1.4	150.77	154.0	3.2
3 June	151.88	152.7	0.8	152.44	156.1	3.7
10 June	152.58	153.8	1.2	152.6	155.2	2.6
17 June	156.76	156.8	0.0	157.01	158.6	1.6
24 June	156.91	159.3	2.4	157.15	159.7	2.5

6.2 Regional price implications

The RAA acknowledges that, unlike metropolitan motorists, motorists in regional Australia and more specifically regional South Australia do not have the ability to purchase discounted fuel, with regional retail prices remaining stable and fluctuating in line with changes in wholesale rates.

While the RAA accepts that reduced competition and greater distance from capital cities will deliver price differences across regional Australia, there is no justification for average country petrol margins to change significantly, particularly in the short term, when international petrol prices remain stable.

¹² An extrapolation of six month savings as indicated in Table 6.3



Recent market research also shows that the motor vehicle continues to be an integral part of most South Australians' lives – particularly those in regional South Australia – with motorists extremely concerned about the rising cost of petrol¹³. Most motorists however are reluctant to forgo driving as a result of higher petrol prices, but instead spend less money on other essential and discretionary items. It is because of this that a competitive petroleum industry must exist throughout Australia, and those within the industry must operate in a transparent manner.

RAA believes FuelWatch will do little to assist regional motorists in their pursuit for cheaper fuel – a view echoed by the ACCC in its report from its Inquiry into the Price of Unleaded Petrol, when it expressed concern *“that in less competitive markets a FuelWatch type of scheme could lead to higher prices through anti-competitive effects”*.¹⁴

In fact, when compare pricing trends in South Australian regional towns with those of a similar size, population and proximity in Western Australia, by stifling the limited competition which currently exists, there is a chance fuel prices may even rise (see Table 6.1 to 6.3).

Chart 6.1 – Port Pirie (SA) v Bunbury (WA) ULP Price Comparison

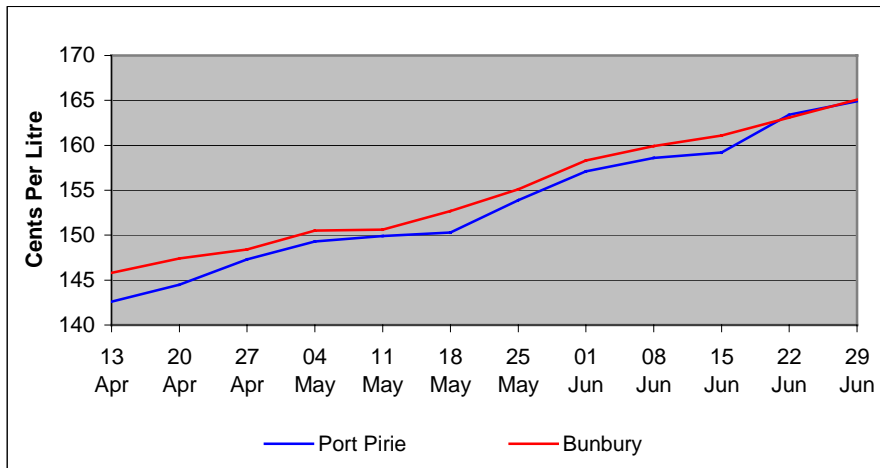
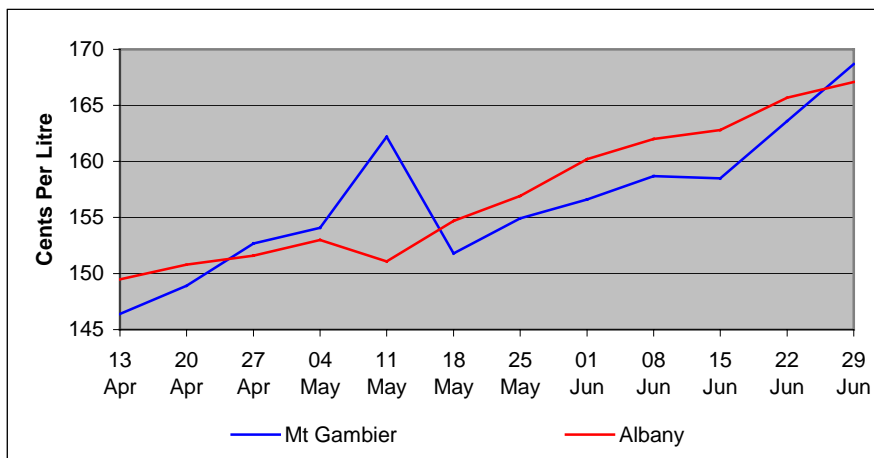


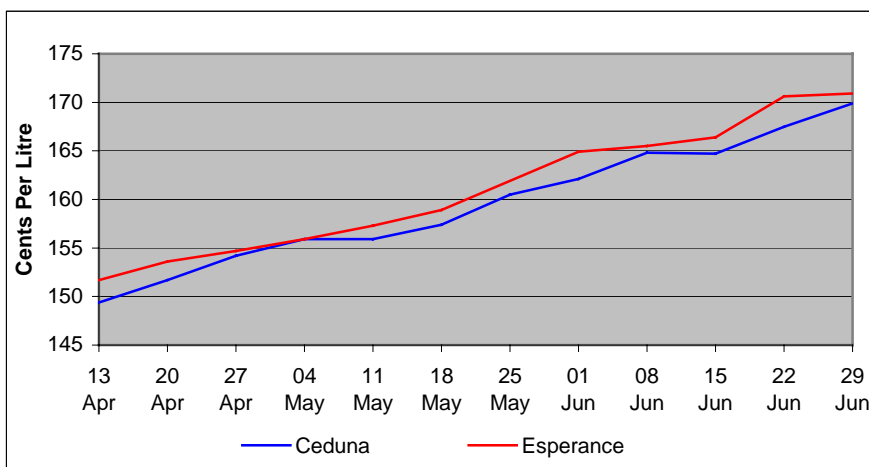
Table 6.2 – Mt Gambier (SA) v Albany (WA) ULP Price Comparison



¹³ 2007 ANOP survey - 91% rate their car as important, with 65% rating it as extremely important

¹⁴ Report of the ACCC Inquiry into the Price of Unleaded Petrol (chapter 15, pp 253)

Table 6.3 – Ceduna (SA) v Esperance (WA) LP Price Comparison



7. FuelWatch and its Implementation Costs

Petrol prices are a function of a large number of factors including crude oil prices, transportation costs of both the crude oil and the petrol, refining costs and margins, marketing costs and margins, supply and demand balances in a given region, inventory levels, Federal taxes (excise and GST), Federal and State subsidies, local price competition (or lack thereof), exchange rates and profit margins.

For these reasons motorists need access relevant and timely information to make informed purchase decisions.

While FuelWatch aims to provide this assurance, given evidence exists to suggest competitive markets will suffer should fuel prices be locked for a 24-hour period, the question must be asked, could the \$20.9 million allocated over four years to implement a national FuelWatch scheme be better spent on an initiative which provides price security and a transparent information exchange?

8. FuelWatch and the Consumer Information it provides

The cost of motoring has long been a concern for motorists and an issue the motoring clubs nationally have monitored closely. The Australian Automobile Association (AAA) has been monitoring and publishing detailed fuel prices for more than 110 cities and towns since 1998. This monitoring began with an announcement by the (then) Treasurer that the motoring clubs, in conjunction with the ACCC, would monitor prices following deregulation of the petrol market.

As previously stated, the RAA too has been monitoring the petroleum industry to provide a comprehensive fuel advisory and information service to RAA members, the general public, media, other motoring clubs around Australia, industry stakeholders and the private sector – a role also provided by many of the mainland State capital city motoring clubs.

For this reason, with minor alterations to the way each of the auto clubs collect and report findings, the auto clubs are in the enviable position to provide motorists with a similar degree of consumer information which will be provided under FuelWatch – for a fraction of the price – to enable motorists to make better informed purchase decisions.

9. Conclusion

The RAA believes that market forces should dictate the price of petroleum-based products reflecting their cost of production, the cost of supplying products to different markets and the degree of competition that exists in those markets. A free and open competitive market for petroleum products best serves the interests of consumers.

We see the availability of transparent information and analysis as an important part of an open and competitive fuel market. The RAA unashamedly aims to help motorists put downward competitive pressure on fuel prices by providing motorists with the opportunity to search for the cheapest fuel price available in any given area on any given day.

RAA agrees with the comments of the ACCC, in its Report of the ACCC Inquiry into the Price of Unleaded Petrol, that enhanced price transparency can directly benefit consumers by reducing costs while potentially increasing competition, but notes the ACCC concern that under certain circumstances increased price transparency can increase the likelihood of anti-competitive coordination.¹⁵

In fact, the RAA remains extremely concerned that FuelWatch, in its proposed form, is not the appropriate mechanism to provide the transparency and price confidence the community is seeking, particularly in light of the ACCC previous view towards FuelWatch, and why RAA urges caution must be shown before hastily moving to semi-regulate markets that can be proven to be highly competitive.

"It has been consistently our view that, if you take steps to endeavour to regulate that (the price cycle in the way FuelWatch does) or to diminish the price cycle, invariably what will occur is that the price will be set, on average, at a higher level, and those who take advantage of being informed and purchase at the lower points of the cycle will suffer loss."¹⁶

ACCC Chairman, Graeme Samuel, 19 October 2006

RAA believes there is more merit in looking to expand the availability of real-time pricing information to motorists. This option would involve making real-time price information available publicly for each petrol retailer – ideally through a website, managed by the ACCC and/or each of the Australian automobile clubs.

Under this proposal, all service stations would be required to participate in a scheme which would involve each retailer declaring their price each time it is changed. This would mean, if a retailer does not change their price for a two or three day period, then no notification is necessary. However, should a retailer change price five times in one day, they must notify the scheme on each occasion as the change is being made.

Currently, Informed Sources provides real-time fuel price information to those within the industry who subscribe to its service, while MotorMouth allows motorists to search for the cheapest fuel prices in most metropolitan areas.

While this proposal will not eliminate the weekly price rises encountered in each of the mainland State capitals (excluding Perth), with 76 per cent of motorists aware of the current discount cycle structure, the ACCC and the auto clubs nationally can continue to educate the community about the optimal time to buy.

Alternatively, FuelWatch could be enhanced to permit fuel retailers to notify and *lower* their prices at any time during each 24-hour period. This approach would require an optimal reduction level being set (ie no more than Xcpl below the price advised in the previous 24-hour period) to ensure retailers when first notifying their price for the subsequent 24-hour period did not set that price artificially high in an attempt to manipulate the system. Such a decision avoids an overt regulatory approach and interference with market forces, which FuelWatch in its current form proposes. Nor does it disadvantage those sections of the retail industry that do not receive any price support from not being aligned to one particular oil company.

¹⁵ Report of the ACCC Inquiry into the Price of Unleaded Petrol (chapter 15, pp 239 - 261)

¹⁶ Senate Standing Committee on Economics – Price of Petrol in Australia, pp E24, 19/10/06



No matter which approach is adopted, the formal review provisions currently proposed under FuelWatch – requiring a formal review be conducted after 12 months to assess the totality of the scheme, its impact on consumers (including price considerations) and its impact on retailers – must be retained. At such a time, this review must be detailed and transparent to ensure consumer confidence in the implemented scheme can be gained.