



Submission

To the

Inquiry into National Fuel Watch Legislation

Conducted by the

Senate Standing Committee on Economics

July 2008

RACV perspective

The Royal Automobile Club of Victoria (RACV) represents over 1.9 million members. RACV has a key role in informing members on matters relating to the motoring and transport sector and advocating on behalf of members on a wide range of motoring, safety and transport issues.

RACV has been monitoring the fuel retailing market in Melbourne and Victoria for a considerable length of time and welcomes the opportunity to respond to the Standing Committee on Economics Inquiry into the National Fuel Watch Legislation.

RACV position on Fuel Watch

The evidence currently available to RACV shows that if Fuel Watch were to be introduced in its current format it would deprive Melbourne's motorists from purchasing cheaper fuel on a weekly basis. It would cause confusion and anger with motorists, lessen competition and see some independent service station operators exit the market.

There has been no definitive evidence provided by Government to show that Fuel Watch will lower prices in Victoria and concerns about the future of independent service station operators under this scheme have not been addressed.

In summary the RACV does not believe Fuel Watch in its current format would benefit Victorian motorists.

The system which is in place in Perth is not a good fit for Victoria because of the greater competitive market pressures that operate in this State and the larger number of service stations and refineries. Melbourne and some country centres have an understandable weekly price cycle which is predictable and has become second nature to the motorist, with 65 percent of motorists purchasing fuel on the four days of the week when it is cheapest.

ACCC

The recent Australian Competition and Consumer Commission (ACCC) report into petrol prices expressed concerns about the Fuel Watch system saying that:

- There was increased potential for anti-competitive effects in rural and regional areas due to the more concentrated nature of the market.
- There was the potential for a reduction in the predictability of price cycles for consumers who have adapted to them, and
- The administrative costs of such a scheme are likely to be large.

The ACCC also in its report noted that 60% of Perth motorists filled their cars on the four days when prices were above the weekly average price. Yet in Melbourne 65% of petrol was purchased on the four days where prices were below the weekly average price.

Over more recent months, statements from the ACCC have varied widely as to the actual effects of the Fuel Watch system.

Fuel Watch and its Effect in Perth

Fuel Watch is a system whereby service stations have to advise the Government what their retail price will be for the following day for a range of fuels and this is posted on a web site. The stations are then prevented by law from changing this price for 24 hours.

Over time this has led to a two week pricing cycle being introduced in Perth where the system operates now (see attachment 1). Prices do not go as high as Melbourne, however more importantly Perth prices do not normally go as low, thus denying motorists who fill weekly, access to the cheapest possible fuel price. Further, it is not clear in Perth which day will be the cheapest in the 14 day period. Therefore, motorists who fill up weekly will on average be paying higher average prices.

Recently a further change in pricing behaviour in Perth has seen the fortnightly cycle disappear (see attachment 2). If the price cycle in Melbourne were to disappear as a result of the introduction of Fuel Watch this would result in much confusion and anger from motorists.

Independent Service Stations in Victoria and Fuel Watch

Victoria has a large number of independent service station operators, both in the City and country areas. It is the independents stations that tend to start discount cycles which leads to the very competitive market we see in Melbourne and some Victorian country towns.

RACV is of the view that the impact Fuel Watch would have on independents is contrary to the maintenance of a competitive market. It will remove the right of independents to drop prices immediately to compete with service stations in the local area. Further if an independent station sets the price too high compared with the local competitors, fuel sales will decrease dramatically, thereby lowering customer numbers to the service station shop, threatening the profitability of that business. This dynamic has led to more conservative pricing in Perth where the higher prices have been moderated, but importantly the lower end of the price cycle does not deliver the cheaper prices experienced in Melbourne.

This is a problem not faced by a multi site franchise operator who can carry individual sites for a day that may have over priced in their local area. They also have the ability to discount prices at a few sites to give the impression that their brand is cheapest on the Fuel Watch web site.

If independents cannot compete under the Fuel Watch system over time they will close. This will see the supermarket service stations become even more dominant to the detriment of the motorist.

RACV Proposed Amendments to Fuel Watch

RACV recognises that pricing transparency and providing perfect pricing information to motorists to assist in making an informed purchasing decision for fuel is an attractive part of Fuel Watch. In fact RACV has been providing pricing information on its web site for many years. This aspect of Fuel Watch is the only one that should be recommended by the Senate Committee on Economics. RACV proposes that if the Government proceeds with the Fuel Watch system then it should be modified to ensure that competitive fuel markets are maintained and the cheapest prices are delivered to the motorist.

It is the 24 hour rule of freezing prices that we believe will cause the greatest problem for motorists in this State, especially as they have become use to obtaining heavily discounted fuel on several days of the week along with the knowledge of what will be the cheapest days.

It is also this aspect of Fuel Watch which we believe threatens the viability of independent operators of service stations.

We agree that service stations should signal their price the next day and have this reported on the appropriate web site and this will be the price they cannot exceed for the next 24 hours. But the proposed rule should be changed to allow stations to discount during the day. Motorists would know that the price posted will not be exceeded, but it could be lower based on competition in the area. An informed decision can then be made on when to purchase.

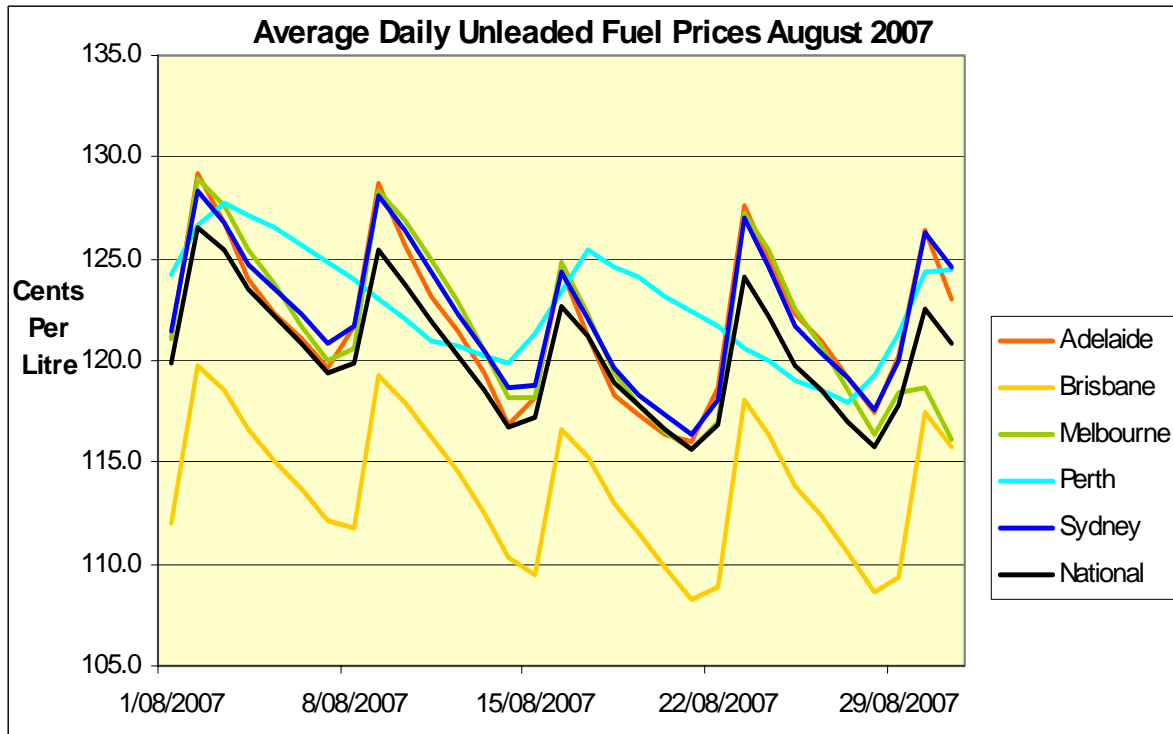
Technology exists for the prices to change on the web as they move at the pump, but one price notification a day may be sufficient for the motorist.

We are aware that some commentators have stated that this will lead to ridiculously high prices being posted. However the Automobile Clubs, the ACCC and the Petrol Price Commissioner should have sufficient knowledge of the history of price cycles in Australia to rapidly name service stations that show pricing behaviour out of the ordinary.

Sufficient information has been made available to the Federal Parliament from many interested parties on this matter and it is clear that the overwhelming consensus is that Fuel Watch in its current form will not deliver cheaper fuel prices to Australia.

City Comparisons

(attachment 1)



(Attachment 2)

