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Reference: National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008; National Fuelwatch (Empowering Consumers) Bill 2008

THURSDAY, 7 AUGUST 2008

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**SENATE STANDING COMMITTEE ON
ECONOMICS**

Thursday, 7 August 2008

Members: Senator Hurley (Chair), Senator Eggleston (Deputy Chair) and Senators Bushby, Cameron, Furner, Joyce and Pratt

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cash, Colbeck, Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Hefernan, Hogg, Humphries, Hutchins, Johnston, Joyce, Kroger, Ludlam, Lundy, Ian Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Abetz, Bushby, Cameron, Eggleston, Fielding, Furner and Hurley

Terms of reference for the inquiry:

To inquire into and report on: National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008;
National Fuelwatch (Empowering Consumers) Bill 2008

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Committee met at 8.59 am

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics inquiry into the National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008. On 18 June 2008 the Senate referred these bills to the committee for report not before 29 September 2008. The objective of these bills is to empower consumers to make informed decisions and purchase fuel at the lowest possible price. To this end, the bills introduce a requirement that petrol retailers must notify the Australian Competition and Consumer Commission of their next day's fuel prices by 2 pm each day and must sell at their notified prices from 6 am the next day to 6 am the following day.

This is the seventh public hearing for this inquiry. These are public proceedings, although the committee may agree to a request to have evidence heard in camera, or may determine that certain evidence should be heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as contempt. It is also contempt to give false or misleading evidence to a committee.

The Senate has also resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may of course also be made at any other time.

[9.01 am]

CASSIDY, Mr Brian, Chief Executive Officer, Australian Competition and Consumer Commission

DIMASI, Dr Joseph, Executive General Manager, Regulatory Affairs Division, Australian Competition and Consumer Commission

KING, Dr Stephen, Commissioner, Australian Competition and Consumer Commission

SAMUEL, Mr Graeme, Chairman, Australian Competition and Consumer Commission

CHAIR—Welcome. Mr Samuel, do you wish to make an opening statement?

Mr Samuel—Madam Chair, I could use up the whole of our one hour allocated time to reread the whole of the transcript of proceedings of Senate estimates just a little while ago, but I will refrain from doing that out of respect for the committee and pass straight over to questions.

Senator ABETZ—Can you tell us when Mr Walker finishes?

Mr Samuel—We think about the end of September. He has some difficult personal circumstances which necessitate his staying in Perth and it is making it impossible for him to be able to fulfil his responsibilities properly. He has acknowledged that. He has advised the minister that he will endeavour to stay as a member of the commission until the end of September.

Senator ABETZ—I only asked when.

Mr Samuel—As I say, I am trying to give you an accurate answer, and it is likely to be towards the end of September that he will cease.

Senator ABETZ—And it is those personal circumstances that are holding him back from appearing here today.

Mr Samuel—That is correct, yes.

Senator ABETZ—Can I ask what econometric modelling the ACCC has done in relation to the South Australian fuel market and the impact of Fuelwatch on the South Australian fuel market?

Mr Samuel—I am not sure that Fuelwatch operates on the South Australian markets. I do not think any econometric modelling has been done of the application of Fuelwatch to the South Australian market. There is no Fuelwatch in South Australia.

Senator ABETZ—That is right. But you have done econometric modelling in relation to Perth and the eastern seaboard states. We had a discussion about that. I am wondering whether you have done any in relation to its application in South Australia.

Dr Dimasi—When we did the econometric modelling of Perth and the eastern seaboard, South Australia was included.

Senator ABETZ—Was included?

Dr Dimasi—Was included.

Senator ABETZ—Do you agree that the South Australian market is a discrete separate market to the eastern seaboard states, and that to lump them in with the other eastern seaboard states could in fact minimise the impact that Fuelwatch may have on the South Australian market, given that, as I understand it, the ACCC says that Adelaide is one of the most competitive retail markets in Australia?

Dr Dimasi—I am not sure. By the way, in response to your broader question about a definition of markets, the definition of ‘markets’ is a fairly specific technical issue. That would be a discussion on its own, but on this question of the peculiarity or the specific nature of South Australia, you could look around many of the other cities and they all have different peculiarities. For example, in Brisbane, there is a subsidy, so petrol in Brisbane is generally cheaper than elsewhere. All of the markets have their own individual issues and peculiarities, which is why we tested Perth, where FuelWatch does exist, against the eastern seaboard capitals, and tested specifically to see if there was a difference pre and post FuelWatch.

Part of that and all of those issues would have been irrelevant to that question because again, Senator, the sort of questions you raise would exist pre and post FuelWatch. It was a different market pre FuelWatch and a different market post FuelWatch. It is only if there was a change in that that might have been relevant. I do not think the issues you are raising were relevant for our econometric analysis.

Senator ABETZ—Does the ACCC—

Mr Samuel—I am sorry, Dr King might have wanted to add something to that.

Dr King—Sorry, Senator. Just to make it clear as to what the role of the eastern states is, because your question reflects a fundamental misunderstanding of the role of the eastern states in the data, the analysis is of the effect of FuelWatch on Perth, and it is only the effect of FuelWatch on Perth. To do that you need to control for other Australia-wide factors. The best way to control for other Australia-wide factors is to consider the eastern states as a benchmark. The correct way of doing that, of course, is to consider the eastern states as a whole. To the degree that you then bring, if you have said, 'Let's just use South Australia as the benchmark', you would start distorting your analysis and would have to check that there were not other things that affected that South Australian benchmark.

Senator ABETZ—Is it with the market itself?

Dr King—The question is not, with all due respect, sensible within the context of what we did. It is checking FuelWatch in Western Australia. You cannot say it is checking Fuelwatch in South Australia. That question just does not make sense in terms of the econometrics.

Senator ABETZ—Can I suggest to you and to Dr Dimasi that the ACCC has made specific comment on the Adelaide market as being the most competitive, or words to that effect. Is that correct?

Dr Dimasi—Senator, we have made comments about the various markets.

Senator ABETZ—Which various markets? So you are able to divide up, and you do have a definition of, markets?

Dr Dimasi—I am sorry, Senator, I am just using your terminology. We could get into a debate here about what is a market and I am not sure that that would be particularly fruitful.

Senator ABETZ—Let us get right down to basics. Does the ACCC acknowledge that the Adelaide/South Australian fuel market is a discrete and separate market as compared to the Melbourne, Sydney and Brisbane markets?

Dr King—With all due respect, Senator, your question does not make sense. You cannot define markets without defining what question you are asking. For example, if you were talking about a merger—

Senator ABETZ—This—

Dr King—Excuse me, Senator. If you were talking about a merger, the courts in Australia have made it quite clear, for example, that in merger analysis, you talk about markets in a purposive nature. You cannot simply talk about 'an Adelaide market' without saying what is the context that you want to put that market in. You cannot talk about a South Australian market without saying what is the context. So, if you are able to give us a context—for example, if you are saying Caltex wishes to take over Shell, which is something we would be glad to know if it was true, then we can start talking about markets. But talking about markets in the abstract is meaningless.

Senator ABETZ—All right, but we can talk about the Western Australian fuel market and draw a comparison.

Dr King—No.

Senator ABETZ—That is all quite easy, is it not?

Dr King—No.

Senator ABETZ—Yes, I think it is, is it not?

Dr King—No. We can talk about the effect of FuelWatch on Perth petrol prices, and that is exactly what our analysis does. And that is all our analysis does.

Senator ABETZ—But we are talking about the Perth market.

Dr King—You are using the term 'market'. I prefer to say we are talking about petrol prices.

Senator ABETZ—Are you telling me the ACCC, in its analysis of FuelWatch, has not referred to the term 'market'?

Dr King—I have no idea, off the top of my head, if we have referred to the term 'market' or not.

Senator ABETZ—You see, you are very—

Dr King—But let me say what the test actually does.

Senator ABETZ—I am sorry, keep going.

Dr King—Let me say what the test does, which is, it looks at the effect on Perth unleaded petrol prices. That is what it does. Now, if you wish to say there is a Perth market—

Senator ABETZ—Has the ACCC ever used the term ‘the Perth market’ or ‘the Western Australian market’ in its analysis and its commentary?

Mr Samuel—It could well have done.

Senator ABETZ—Thank you.

Mr Samuel—I am just conscious of the time, but I am just not sure what the purpose of this is.

Senator ABETZ—Thank you.

Mr Samuel—Let me try to explain. The econometric modelling was designed to do one thing: it was designed to compare the pricing of petrol in Perth before and after the introduction of FuelWatch with the pricing of petrol in the eastern seaboard states, including South Australia, before and after the introduction of Fuelwatch. It does just that. The purpose of the econometric modelling was to see whether or not FuelWatch’s introduction in Perth had done any damage to consumers. It concluded it had not. That is the purpose of the econometric modelling. It is what the data demonstrate.

If you want to go on to debate about whether Adelaide is different to Sydney or otherwise, yes, we can show you that in February this year, or in January-February this year, Adelaide had a protracted period of no-price cycle, that is, of excessive discounting. Yes, but so did Melbourne in May. Now, Melbourne is no different to Adelaide. We saw that in 2007 Sydney had a protracted period of excessive or extreme discounting with no hikes in the price cycles. Does that make Sydney any different to Melbourne, to Adelaide?

Of course, the price cycles tend to operate differently, but the real issue is to try to look at the way the price cycles operated, the way the pricing operated across the eastern seaboard and to compare it with Perth, before and after FuelWatch, to see—and this is the primary issue—whether or not FuelWatch had done any damage to consumers. The conclusion reached after all the econometric modelling and the study was that the introduction of FuelWatch did not do any damages to consumers when it was introduced in Perth.

Senator ABETZ—All right. So we have got the firm conclusion that it did not do any damage—hardly a ringing endorsement.

Mr Samuel—No.

Senator ABETZ—But the Senate has issued—

Mr Samuel—No, Senator, I am sorry.

Senator ABETZ—Sorry?

Mr Samuel—I have to pick you up on that. I am sorry, Senator, because this is—

Senator ABETZ—Are you going to allow me to interrupt you, Mr Samuel? We do have a time constraint on us. When I do tend to interrupt, I try to back off and apologise.

Mr Samuel—All right. I back off and apologise.

Senator ABETZ—Thank you. Can I take you to the econometric—terrible word, that—modelling. You would be aware of the criticisms of it by Professor Harding, and I dare say you are aware of, it would be fair to say, supportive comments of Professor Gans in relation to the modelling that the ACCC had done. We have submissions before us from both those learned gentlemen. Which one should be believe, and why?

Dr King—I believe their submissions are rather different in the sense that I believe that Professor Harding has been given the Informed Sources data. I am happy to discuss Professor Harding’s analysis. My understanding, though, is that, despite Professor Gans’s asking for that data on his own behalf and on behalf of other academics, he has been denied that data by Informed Sources. In that sense it is a bit hard to say whom we should believe, given that, as I understand it, Informed Sources has decided to give the data to one person and has explicitly refused to give the data to another person—a situation I find rather odd.

Senator ABETZ—Who did the modelling? Which person did the modelling within the ACCC?

Dr Dimasi—The modelling was done by Richard Hayes. He is our modeller.

Senator ABETZ—By Richard Hayes.

Dr Dimasi—Correct.

Senator ABETZ—Is he an employee of the ACCC?

Dr Dimasi—He is, yes.

Senator ABETZ—Is he currently a student?

Dr Dimasi—Richard finished his PhD last year, if I recall.

Senator ABETZ—But he is not a ‘Dr’ yet?

Dr Dimasi—Well—

Senator ABETZ—I am sorry?

Dr Dimasi—In the process of getting his doctorate awarded.

Dr King—He has. He has received his doctorate.

Senator ABETZ—Right.

Dr Dimasi—Oh, he has received it, has he? Okay.

Senator ABETZ—He has received his doctorate, has he?

Dr Dimasi—Yes.

Dr King—Yes. He is Dr Richard Hayes.

Dr Dimasi—Dr Richard Hayes.

Senator ABETZ—Who was his supervising academic?

Dr King—Professor Joshua Gans was his main supervisor.

Senator ABETZ—Ah. So Professor Joshua Gans, who says the econometric modelling was good, et cetera, was in fact the academic supervisor of the fellow that undertook the modelling. One would assume, therefore, that it would have been under the guidance of this Professor Gans.

Dr Dimasi—I am sorry, why would you assume that?

Senator ABETZ—Because he was under the academic supervision—I think we are agreed on that, are we not?

Dr Dimasi—No, not in relation to the work he does for the ACCC, Senator.

Senator ABETZ—So he would not have got any guidance, not had any discussion with his academic supervisor, in relation to the modelling?

Dr Dimasi—I would imagine that, as Professor Gans was Dr Hayes’s supervisor, they would have discussed issues of general econometric analysis. They are both experts in the field. I would very much doubt that he would have discussed the specifics of the FuelWatch monitoring, which was based on confidential data that Dr Hayes had. I would be very surprised, Senator.

Mr Samuel—Senator, I wonder if I could perhaps help in this process because at the moment what is occurring is that, in the process of questioning, some questions are being raised as to the integrity of Professor Gans, which I think is inappropriate.

Senator ABETZ—Oh—

Mr Samuel—No, I am sorry, do not interrupt please, Senator; let me finish. But I think that questions are being raised by innuendo as to the integrity of Professor Gans and of Dr Hayes in the context of the econometric modelling by reference to issues that are totally disconnected, that is, Dr Hayes’s process of his doctorate, which was supervised by Professor Gans. If we are going to raise questions of the integrity of Professor Gans, that ought to be directed to Professor Gans himself rather than to the ACCC. What I think perhaps is more appropriate is this: we have examined the analysis that has been undertaken by the other professor you have referred to, Professor Don Harding, and I think it would be appropriate, if I might suggest, for Dr King to provide his commentary on that analysis so that the committee is aware of our views about Dr Harding’s analysis. Dr King?

Senator ABETZ—I am sorry, you had the chance of an opening statement. I am in a process of asking questions. One of the important factors I thought of Fuelwatch was transparency. I think we are all in heated agreement. I am just now exploring the transparency of the way that the ACCC undertook its modelling in this area. I am just asking some questions. In Professor Gans’s submission to us, he refers to a joint piece of work

undertaken by or with a Dr Stephen King, and I assume that that is the Dr Stephen King sitting at the table with us today. Is that correct?

Mr Samuel—Senator, if I might say so, the first question you ask is: which of the analyses, Professor Gans's or Professor Harding's, do we prefer? I think it is appropriate that Dr King actually indicates his preference for that.

Senator ABETZ—We have moved on from that.

Mr Samuel—Well, I am not sure we have. I do not think we actually got to that because unfortunately the questioning then came to issues of the integrity of Professor Gans and Dr Hayes. Perhaps Dr King ought to answer to question as to which he prefers, and he can do that by analysing very quickly the analysis undertaken by Dr Harding. That may assist the committee.

Senator ABETZ—All right.

Mr Samuel—Because you adopt Professor Harding's submission that has been put to you. I think Dr King might be able to give you some assistance as to the credibility of that particular analysis by Professor Harding.

Senator ABETZ—You see, you are in some difficult territory, and now all of a sudden you want to switch to analyse Professor Don Harding.

Mr Samuel—No.

Senator ABETZ—What I want to do is continue the line of questioning.

CHAIR—Gentlemen and the committee, we seem to be spending a lot of time debating across the table. Senator Abetz will resume questioning. I will ask Dr King about Professor Harding's analysis and we will go back to you. Dr King, can you give your view?

Senator ABETZ—I am not sure what you have heard of this issue.

Dr King—This continues my answer to you, Senator Abetz, as to which we prefer. As I said, there are issues as to who got the data, which I find rather disturbing. The other issues that are worth putting to the committee relate to Professor Harding on his submission in a paper which is titled *FoolWatch: further discussion of econometric analysis under by ACCC*. I understand Professor Harding has put two sets of analyses to the committee, both referred to as *FoolWatch*. I will start with the second one because I think the second one—well, both are relatively easy to deal with.

Professor Harding, if I can say, violates what I would call the first law of statistical inference, or the first law of econometrics, in his second submission in that he picks and chooses his data. That means that his second submission has no statistical validity. Every test he does in there is, from a statistical perspective, wrong. Perhaps an easy way to explain that in response to your question is just to show you why that is the case.

Senator Hurley, perhaps the easiest way to see this is through an example. As a simple example, imagine I pulled a fair coin out of my pocket and I said to you, 'Senator, I'll offer you the following bet: if it comes up tails, I will give you \$10. If it comes up heads, you give me \$10.' You, Senator Hurley, might say, 'That's a fair bet. I'll take you on.' Now I get that coin and I toss it in the air. It comes down and lands up tails. Before Senator Hurley can grab the \$10, I say, 'Oh, no. Hang on. I don't like that toss.' I pick up the coin again. I toss it in the air. It comes up tails again. Again, before Senator Hurley can grab my money, I say, 'No, no. I don't like that toss either.' I pick up the coin a third time and toss it into the air. Ah, this time it comes up heads and I say, 'Senator Hurley, you owe me \$10.'

I suspect in that situation Senator Hurley would call me all sorts of names. In response, I might say, 'But Senator Hurley, it is a fair coin. You have a 50 per cent chance of winning.' In that situation, I hope Senator Hurley would say to me, 'Don't talk such utter nonsense, Dr King. I had no such thing. You will clearly be waiting until a head came up. I had no chance of winning.' And she would be correct. Statistically, because I was picking and choosing my data, there was not a 50 per cent chance of her winning; there was a zero per cent chance.

What Professor Harding does in his second submission is exactly that. He looks at the east coast data and he says, 'Well, I don't like Adelaide. Adelaide appears to verify FuelWatch. In terms of relative prices, the price in Adelaide—the relative petrol price in Adelaide—goes up relative to Perth around the time of FuelWatch. I'll throw that out.' He then turns to Melbourne. He says, 'Oh gosh, the relative price of petrol in Melbourne goes up compared to Perth around the time of FuelWatch's introduction. I will throw that out.' He then turns to

Sydney and he then says, 'Ah, Sydney seems', and to quote him, 'more stable. There is a stable relationship.' In other words, that is what he is looking for, and he then runs his tests on that.

That is completely invalid as a matter of statistics. It means that every test he carries out from that moment on—every test he carries out—has no legitimacy as a matter of statistics. So I will put zero weight on the second submission of Professor Harding. If I can turn to the first submission now, the first submission of Professor Harding uses a different method. His method there is closer to the ACCC's. It was done prior to his being provided the Informed Sources data. It appears that he was only provided that data after he had come out with the paper saying that he thought FuelWatch was wrong. I will allow others to comment on that.

In his first paper, though, he does what I would call a statistical trick. Again, a simple example is probably best here. Let us imagine that we have time series data, and let us imagine that that time series data has a break in it. Breaks do not occur at one point in time. We would not expect to wake up one morning after Fuelwatch is introduced and find that the prices had dropped by a cent or something like that: changes take time. Data show that changes take time. Let us imagine we test that break, as the ACCC did, and find that break is statistically significant and indeed a negative break. That is what the ACCC's initial analysis did.

As a matter of statistics, we can play a little statistical game here. If we want to show that break is not statistically significant, what we can do is divide it up. We can say, 'Let's imagine there are two breaks. We won't call them both Fuelwatch. We will call one of them Fuelwatch and we will simply leave the other unnamed and unexplained.' That is what Professor Harding does. He breaks the Fuelwatch variable, the dummy in the break, into two bits. He calls one Fuelwatch, but he leaves the other unexplained. He does not say, 'Oh, this break,' which he finds is negative and statistically significant, 'is because of something else.' He simply leaves it unnamed. What he has done is essentially taken a statistically significant break, due to Fuelwatch, and he has divided it into two bits. Not unsurprisingly, he is able to get one bit not significantly different to zero. They are both negative, of course. He calls that one Fuelwatch and he simply ignores the other one. It is a statistical trick. I would also put zero weight on that analysis for that reason.

Mr Samuel—Let me just conclude, Senator, just by rounding off this particular answer. The difficulty that we have is this: at the Senate estimates, we were asked about the availability of the data. We said we had advised Informed Sources that we had no objection to the data they had supplied to us confidentially being made available to any other party that sought it. We are now advised by Informed Sources that they have imposed two tests, two criteria, to determine to whom they will release that data. Criterion No. 1 is the need to be satisfied that the party to whom it is released has the ability and expertise to properly analyse it in terms of econometric modelling. Criterion No. 2 is that the party can be trusted as to confidentiality.

What they have done is release the data, as I understand it, to Professor Harding. I think it has also been released, has it not, to Professor Sinclair Davidson of the IPA, but it will not be released to Professor Gans or to two other academics who have been nominated by Professor Joshua Gans. If I might respectfully say so, and of course it is entirely up to Professor Gans to deal with his own integrity, but what Informed Sources is saying by that process is, 'We trust and respect Professor Harding as to expertise and Professor Sinclair Davidson—we trust and respect Professor Sinclair Davidson and Professor Harding as to their ability to maintain confidentiality—but we do not believe that Professor Gans or the other academics have that expertise or can be trusted as to confidentiality.' Frankly, on the surface, that is offensive; but to give Informed Sources the benefit of the doubt, I suspect that there is another test that they are applying because, quite coincidentally, the data have been released to parties who had previously expressed support what I shall say is opposition for Fuelwatch. The very title of Professor Harding's paper, *FoolWatch*, I think speaks for itself, but Professor Gans has expressed an alternative view and thus seems to be banned from receiving the data from Informed Sources. It makes it really difficult indeed—and I will return to Senator Abetz—to then be able to make a determination as to which is the better econometric modelling, other than to deal with only Professor Harding's, which is what Dr King has been able to do.

Senator ABETZ—Thank you. Now we can confirm that the reference in Professor Gans's document, where he had a collaborative work undertaken with a Dr Stephen King, is in fact the Dr Stephen King sitting at the table.

Dr King—As I have not looked at the specific reference, I cannot confirm that, but I would be extremely surprised if it was a different Stephen King.

Senator ABETZ—Because you and Professor Gans have a very long history, do you not, of undertaking collaborative works? And, just for the record, it is Joshua S. Gans and Stephen P. King, *Regulating*

endogenous customer switching costs: contributions to theoretical economics, volume 1, issue 1 (2001) article 1.

Dr King—Yes, indeed.

Senator ABETZ—Right? That is the one? Good.

Dr King—That is the one, and I recommend it to you.

Senator ABETZ—So we are in heated agreement that you are the one and the same. That is good. Can you confirm to us that there has been a long history between you and Professor Gans, Dr King, in undertaking collaborative works and writing articles as joint authors?

Dr King—Yes, indeed.

Senator ABETZ—Yes. For how long has that been the case?

Dr King—In fact, we are probably two of the most cited economists.

Senator ABETZ—I am sorry?

Dr King—And in fact we are probably two of the most cited academic economists in Australia on that academic work.

Senator ABETZ—Yes?

Dr King—Yes.

Senator ABETZ—For how long have you been working together?

Dr King—Probably our first paper together would have been late 1990 sometime.

Senator ABETZ—Yes, so about a decade. Would that be fair to say?

Dr King—Yes.

Senator ABETZ—Yes, and it has been a pretty good, close working relationship over that decade.

Dr King—It has produced some exceptionally good economic work, if I may say so myself.

Senator ABETZ—Well, I am sure that is your opinion, and overall I am sure that would be the opinion of the vast majority of people in general terms. Did the modelling take into transport costs from Singapore to Perth and from Singapore to the eastern seaboard?

Dr Dimasi—Senator, as indicated in the report, one of the caveats was that, no, we did not model for transport costs, but of course it is not transport costs that you would need to model for; it is differences, changes, in transport costs in Perth, relative to the eastern seaboard that would have been relevant. Transport costs, unless they were different, would not have made any difference.

Senator ABETZ—But you see, transport costs, as I understand it, when you price a product, the transport cost is one of the base costs on which you then add a whole variety of margins and other bits and pieces. So whatever the base transport cost is, it is then that the end price becomes more than the transport cost was because people have the opportunity costs that they want to factor in, the extra costs associated with having to have that extra outlay, and they want to get a return on that, et cetera. So let us say if it were, it is at 7c a litre, but for ease of calculation, let us make it 1c a litre. By the time it is reflected in the actual fuel price at the bowser, it might have become, let us say, 1.1c a litre.

Dr Dimasi—It may, but that is not the issue because that is common to both Perth and the eastern seaboard. The issue again would be whether there was any difference because, do not forget, our analysis looked at margins, at difference. What would have been relevant here would have been if any of the costs that are common to both Perth and the eastern seaboard changed relative to each other. That is what would have been relevant. Common costs that may have had additive elements or whatever still would not have made any difference.

Mr Samuel—Remembering this, that—I am sorry, but this principle needs to be very clearly understood—the econometric modelling, in terms of the comparison, was to determine whether or not there was a change that occurred in Perth as a consequence of FuelWatch, before and after. Now, there are common factors then that would have influenced both eastern seaboard and Perth circumstances. The really significant issue was to say, though, ‘Was there a change that occurred in Perth as a consequence of FuelWatch?’ We need to see the econometric modelling in that context.

Senator ABETZ—And the conclusion you have drawn is that it did not increase prices.

Mr Samuel—That is right, and, according to econometric modelling, there is a statistically significant difference by means of our reduction of price. That was not the purpose of the modelling. The modelling was to fundamentally determine whether any damage had been done to consumers in Perth as a result of the introduction of FuelWatch. The statistically significant reduction in price meant as a consequence of that it was able to be determined that there had been no damage done to consumers as a consequence of FuelWatch.

Senator ABETZ—If I were to say that 5c a litre would be a potential saving to be made with the introduction of FuelWatch, that would not be something that the ACCC would endorse?

Mr Samuel—I think, if I can just jump ahead of your thoughts on this: you are probably referring to the discussion that occurred between yourself and Commissioner Pat Walker at—

Senator ABETZ—No, I am not.

Mr Samuel—No, okay.

Senator ABETZ—No, because I accept, on face value, that he says he was misquoted.

Mr Samuel—That is correct.

Senator ABETZ—While he did not put out a clarifying statement, which I find somewhat strange, given the huge *Daily Telegraph* headline, I do accept, and I did accept. Commissioner Walker said that he did not say so, he did not think that you could make out that argument, but I just want that clarified because it is still out there in the ether every now and then—that Fuelwatch will reduce petrol prices by 5c a litre. But the ACCC would not use that as an argument in favour of Fuelwatch.

Mr Samuel—No, we would not, and we have not. So far as it is being in the ether, it would have to be in the quite distant ether because on many occasions I have indicated quite publicly that we do not see Fuelwatch as ultimately being there to bring about a reduction in prices. What we do see is it giving the advantage to motorists, in the somewhat unique environment in Australia, with petrol price cycles, or being able to establish the service stations that are selling at the highest price and the service stations that are selling at the lowest prices.

If I might say so, Senator, just to finish off that question, just taking yesterday, in New South Wales or in Sydney the minimum price at which petrol was being sold was \$1.34.9. The maximum price at which it was being sold was \$1.61.9. The average price at which it was being sold was \$1.43.2. The difficulty is that while I know those figures and you now know them, you have no idea where the minimum sites were, nor where the maximum sites were, nor indeed where the average sites were. I can give you similar statistics for other cities throughout the country.

Fuelwatch is designed to give that information to consumers. That information is of course held by the major sellers of petrol. They have it sitting on their computer databanks in their offices right at this very minute.

Senator ABETZ—The ether that you spoke about is in fact Mr Alan Evans, but we will draw a line under that and I will hand the questioning over to Senator Eggleston.

Senator EGGLESTON—I would like to ask you about the impact of the supermarkets in Western Australia. There has been much evidence given to this committee that the entry of the supermarkets into the regional fuel market in WA has been a key factor affecting fuel prices. The supermarkets, Coles and Woolworths, now control more than 60 per cent of the retail outlets in WA. It is said the role of the supermarkets has been to manipulate the Fuelwatch scheme by ringing-in and having one station in each region set a low price, and people then imagine that a Coles or Woolworths station will be selling petrol at cheap prices whereas in fact the rest of the stations in that region actually have higher prices.

The IPA has published work by Sinclair Davidson which suggests that it has been the entry of the supermarkets into the WA metropolitan market which has stabilised the fuel prices; that it has decreased competition by pressuring the independents who are unable to match the lower prices posted by the supermarkets under the 24-hour rule; and they are not able to change them. So what work has the ACCC done on the entry of the supermarkets into the Western Australian retail fuel market? Did you take that into consideration in making your determinations?

Dr King—You would be aware the ACCC undertook further work post the release of our report. That work was reported in a document released in—my apologies; I do not actually have a date on this document—

Dr Dimasi—It was 11 April.

Dr King—It was released on 11 April last year.

Mr Samuel—This year.

Dr King—This year, sorry. It was a long time ago.

Senator EGGLESTON—Really?

Dr King—I work in financial years.

Senator EGGLESTON—And you certainly did not appear to take it into consideration.

Mr Samuel—I am sorry.

Dr King—If I could finish answering your question, Senator. Now, in that analysis, we undertook what is called endogenous breakpoint analysis. We did that on weekly averages and monthly averages, as well as weekly minimum prices. The endogenous breakpoint analysis that we carried out, looking at two breaks in the case of weekly averages and monthly averages, came up with breaks associated with Fuelwatch, which were negative statistically significant, and breaks associated with what appears to be Coles entry around February 2004, both of which are significant and negative. So in that sense, yes, Coles did have a statistically significant negative effect on fuel prices in Perth, which is separate and different from that of Fuelwatch.

Now I understand from Professor Davidson's analysis, which you referred to—29 May was actually the date that that work was released. My apologies: it was at the back, rather than at the front of the document. Now, Professor Davidson has also undertaken work on that. Professor Davidson has the Informed Sources data, but, as I understand, in his analysis did not adjust that data for taxes and subsidies and did not adjust that data for fuel premium, fuel quality standard-premium. He carried out an endogenous breakpoint analysis and his endogenous breakpoint analysis also shows, as I understand it, a statistically significant reduction in price in Perth due to Coles.

The reduction in price due to FuelWatch is, I understand it, statistically insignificant in his analysis. So there is clearly some debate between the two analyses about whether Coles was more significant than FuelWatch or FuelWatch was more significant than Coles. I am not sure how relevant that is for the inquiry. The results of both analyses show that there is no statistical evidence that FuelWatch led to higher prices.

Mr Samuel—Brian Cassidy will continue with the response.

Mr Cassidy—Just briefly, that issue of what I call strategic behaviour by the majors and its impact on independents, the so-called rolling price leaders, was something I touched on when we were previously talking about this. It certainly was a proposition that was put to us during the course of our inquiry last year and one we had a close look at. But the issue for us was that in terms of the information that was presented to us, the hard data, independent service stations in Western Australia seem to have done not too badly under FuelWatch. As with everywhere else, there has been a decline in independent service station numbers in Western Australia, both before and after the introduction of FuelWatch; but, in relative terms, the share of services stations in Western Australia that were accounted for by independents increased following the introduction of FuelWatch. It marginally increased from 15 to 17 per cent.

Senator EGGLESTON—I did not catch what you said.

Mr Cassidy—I said the proportion of service stations in Western Australia that are run as independent operations by independents, while the numbers have declined in absolute terms, as has everywhere else in Australia, in relative terms the proportion of service stations in Western Australia that are run by independents has increased in the years since the introduction of Fuelwatch.

Senator BUSHBY—Is that by volume?

Mr Cassidy—I mean by that that the—

Senator EGGLESTON—It means the total number of stations has decreased.

Senator BUSHBY—Something like 15 to 17 per cent.

Senator EGGLESTON—The number of independents has remained the same and the proportion has gone up. That is what you are saying.

Mr Cassidy—Yes.

Senator EGGLESTON—A lot of sites have closed. It does not mean to say there is increased competition though. In fact, the FuelWatch system is being anti-competitive.

Mr Samuel—No, no.

Senator EGGLESTON—And your role, surely, is to promote competition.

CHAIR—Senator Cameron? We are getting short of time.

Mr Cassidy—Well, sorry, but I am being very careful with the words I am using—

Senator EGGLESTON—You are.

Mr Cassidy—because there is a difference between number of service stations and volume of petrol sold. I am simply making a point that that experience of independent service stations in Western Australia would be unusual in the Australian context because in other cities independents have tended to be in decline, both in absolute and proportionate terms, in terms of the number of sites.

Senator EGGLESTON—In South Australia we heard that—

CHAIR—Thank you. Senator Cameron?

Senator CAMERON—Can I ask the commission to give me their views a little bit more on the Don Harding paper in their specific areas. I am not an economist. I tried to read the paper and I must say for a humble fitter and machinist it got a bit tough going, but a couple of things jumped out at me. For papers that purport to be serious economic analysis, the first page on the 1 July paper is headed up with *FoolWatch*, F-O-O-L, and I found that to be quite unsettling in the context of what the paper purports to be.

I have had some dealings with the ACCC in the past. I may have used some adjectives about the ACCC, but ‘foolish’ has never been one of them. You do not employ fools, I would assume, and the econometric modelling that you have done you stand by. Would that be the case?

Mr Samuel—Yes, that is the case. Dr King can perhaps further attest to all that, but I think I alluded to my concern about the headline in the paper, the heading of the paper, which just raised in my own mind some questions as to the bias or the processes adopted in the paper once the headline was there expressed in somewhat more pejorative terms.

Senator CAMERON—The other economists who have made some submissions, such as Professor Gans and we have also had input from Professor Zhongmin Wang, have come to different conclusions from Professor Harding. Does that make them fools?

Mr Samuel—You would have to ask Professor Harding about that. But as I think I have indicated before, Informed Sources seems to indicate that they do not satisfy the criteria that Informed Sources are placing in terms of release of data; that is, they do not satisfy the criteria of having expertise or having trust in terms of ability to maintain confidentiality. My guess is that the third criterion that Informed Sources are really applying in this case is that they do not actually agree with the position Informed Sources would like to promote, which is that Fuelwatch ought not to be pursued.

Senator CAMERON—Dr Harding in this paper on the front page also says that the paper is ‘somewhat outside my usual field of research’. Are you aware of any history of Dr Harding being considered—is he an expert in this field? Is this his first foray into the field from an academic point that you are aware of, Dr King?

Dr King—I do not believe that Professor Harding has done previous work looking at petrol markets. Essentially the field of analysis, if I can break economics up into two parts, is microeconomics, which deals with specific markets such as petrol markets. That is my own area of expertise, it is Professor Gans’s area of expertise and it is Professor Wang’s area of expertise. Professor Harding has his expertise, as I understand it, in the area of macroeconomics, which is the study of broad economy-wide issues, such as inflation and unemployment. I have not looked at Professor Harding’s curriculum vitae to check that he has not done similar work in the past.

Senator CAMERON—Also in his paper he says that Fuelwatch of itself is unimportant. From my uninformed view of the paper, the paper is a battle of economic models and economic theory as distinct from looking at the practicalities of Fuelwatch and what it does for consumers. Would that be a wrong view for me to take on that paper from your view?

Dr King—My own reading of his paper is it appears to be an attack on what he perceives as being the process by which government is informed about economics.

Senator CAMERON—Yes.

Dr King—Many of the perceptions and inferences, essentially, that he seems to draw in that paper, I think, are wrong.

Senator CAMERON—Can I move to Informed Sources and get some views. Informed Sources gave evidence to the committee. I want to go to the issue of information asymmetry and get your view as to why the retailers and the majors within the industry should have access to almost minute-by-minute information and the consumers are told by the industry, ‘You’re doing okay. You’ve got petrol boards there, and the petrol boards are the best way for you to get information.’ That seems to me to be a massive information dislocation for the consumer. What is your view on that approach—that the petrol boards are fine and that is enough for the consumer?

Mr Samuel—We have expressed some very strong views about this in our petrol report, the December 2007 report. The difficulty we have is that the almost real time information held by the petrol sellers, the major retailers, is such that it puts them into a highly advantageous position in terms of information asymmetry relative to consumers. It puts them also into a highly advantageous position in relation to competition. Let me try to illustrate it this way: if you as a petrol seller decide to hike the price of petrol on a particular day, normally a Wednesday of a week, whatever it is, and you decide to hike that price at a number of service stations by 15c, 20c, 10c, whatever it might be, you can sit back very comfortably in that price hike because you are getting real time information in your computer databank that is sitting in front of you that will tell you whether your competitors are meeting you or not.

If they do not match you within half an hour or an hour, then you immediately just pull your price back gradually, or you might pull it back suddenly because you realise that you are out of the money in terms of petrol pricing through that petrol price hiking. That can lead to what I will call lazy competition yet some form of tacit coordination. Then think also that you have hiked the price up and others have met you, and you are sitting up there on a high price. You then say to yourself, ‘Should I start reducing my price? Well, why would I? I don’t need to rush into reducing the price because I’ll simply wait and see what my competitors do. I’ll know within a few minutes on my computer screens whether or not they’re reducing their price, and if they do, at whatever service station they do, I can then adjust my price accordingly.’ Lazy competition yet again; tacit coordination.

It is the process that tends to occur that leads the motorist and observers to say, ‘But they’re just matching each other.’ Who actually drives the price down? Generally it tends to be those that are not part of the Informed Sources service because they do so. They do not have the advantage of those computer databanks that are sitting in front of them in their offices. What does Fuelwatch do? It imposes a very interesting tension on the sellers of petrol because they do not have that computer databank to tell them what their competitor is doing at any point of time. They do not have someone there who will tell them, ‘If I hike my price, and I’m not matched by my competitors, well I can pull it down’, because what happens is that, at 2 pm every day, they have to file a secret tender of their price with the ACCC that they will be charging for 24 hours tomorrow.

If they file a price that is 15c higher than the rest of the market, they cannot adjust it. They are out of the market and the consumers will then know that that service station or that particular chain is 15c out of the market and not to buy petrol from them but simply buy it elsewhere. It is a very interesting discipline indeed.

Senator CAMERON—We received evidence from a Mr Craig Glasby, who was at one stage a Caltex franchisee. Some of the evidence he gave would lead me to believe that there is no real competition certainly among Caltex franchisees. He basically said that there were price controls being imposed on the Caltex franchisees by Caltex.

I have asked Caltex to give the committee some information about executive salaries and about profits in the industry because it seems to me that if they are, in colloquial parlance, screwing their franchisees, there are problems in this industry. Nobody can explain to me this magic Tuesday other than this Edgeworth cycle, which is very difficult to really come to grips with. So there are still problems in this industry. There is no free market competition, on my assessment from the evidence we have had, and that is to the detriment of consumers. Would the ACCC have another look at this, based on some of the evidence that has been given to this committee, to make sure that the consumers are getting a fair go?

Mr Samuel—We spent some time, six months, inquiring into this as part of this report, *Petrol prices and Australian consumers*, which we released in December 2007. A number of critical factors came out of that report. I will not go into the full detail; that is for another time. Suffice to say this: it became very clear that petrol pricing in Australia is to a large part controlled by the suppliers to the retailers, not by the retailers themselves. It is controlled by those that are getting the computer information on their computer databanks. It is controlled also by the price at which petrol is supplied to the retailers and the support mechanisms or lack of

support mechanisms that are being provided by the wholesalers and the petrol refiners to the retailers concerned.

A lot of discussion has taken place in this committee and has taken place in the context of this inquiry about the role of the independents and how the independents provide significant competition. We need to draw a very clear distinction here, and we have done so in this report. The independent chains, such as the Uniteds, the Gulls, the Neumann Petroleums which have now merged, and Liberty in terms of its wholesale operation have some ability to provide some competition as chains, but the smaller independent outlets—the ones that Senator Eggleston was referring to before—have openly admitted through their representatives that they are price takers, not price makers. They are price followers, not price leaders. They just do not have the capacity to do so because the fundamental pricing is controlled, not by them, not by their desire or ability to compete, but is controlled by the suppliers of petrol to them, which are either the wholesalers or the petrol refiners.

Senator FURNER—Mr Samuel, you came along here today and you provided oral statistical evidence in respect to Sydney, for example, and the variants in fuels. I would have to concur with that. Also in Perth when this committee was present, we were provided with visual statistical information in the way of a graph. I am not certain whether you have seen that. I might lean across and table that because that has been provided to the rest of the committee. You will note that the variants across the board for the June of 2008 in respect to all the eastern seaboard states, including Adelaide, are quite significantly different than what has been occurring in Perth under FuelWatch. The evidence provided indicated that on average there was a saving of 2.4 to 4.2 per cent per litre across the board in Perth under FuelWatch. Is that not what this proposal is all about? Is it not about providing consumers with the opportunity to give some understanding of where they are able to buy cheaper fuel and average the fluctuation in the variance of the fuel price across the board?

Mr Samuel—If I might say so, you have hit the nail on the head as to the purpose of Fuelwatch. There has been a lot of confusion largely derived from the focus on the econometric modelling and the reference in that modelling to 1.9c statistically significant differences and the like. Fuelwatch is about giving consumers the ability to pick those variances that are shown on this graph that you have demonstrated. It is about giving consumers the ability to understand which are the service stations selling fuels at \$1.34.9 and which are selling them at \$1.61.9 as at 9 am yesterday in Sydney, or, in South Australia, which are selling at \$1.39.7 and which are selling them at \$1.49.9.

It also gives them the capacity, if I were to look at some of the averages here, to take, for example, Sydney and to try to establish this. In terms of the average price yesterday at 9 am in Sydney—I will do some quick calculations here—the average price was \$1.43.2. What I can tell you on the information that has been given to us is that—I will just add these up: 19 and 13, and that is 29, 39 and 42—about 52, 53 per cent of service stations were selling in Sydney at 9 am yesterday below that average. But I would absolutely guarantee there is no-one in this room, unless someone from Informed Sources is here, that will be able to tell you which services stations were selling below that average. The only way you will be able to tell, as Senator Cameron has indicated, is to go and have a look at the price boards and take pot luck.

Fuelwatch is designed to give motorists all that information, to tell them where they can save not 2c, not 2.6c, not 1.9c, but where potentially they can save the difference between \$1.34.9 and \$1.61.9, or at least get below that average of \$1.43.2, rather than pay the \$1.61.9 and then having frustration, confusion and anger at the fact that they feel they have been ripped off because they had not realised that around the corner or elsewhere down the highway there was another service station selling at potentially 25c less than the one at which they bought their fuel.

Senator FIELDING—This was touched on before, but there is some concern that independents could be squeezed out of the market through Fuelwatch. My questions are: how could you use Fuelwatch to squeeze out competitors like independents and how will the ACCC assure or give assurances that independents will not be squeezed out of the market through Fuelwatch?

Mr Cassidy—There are two propositions in relation to independents and Fuelwatch. One is of fairly long standing, and that is that the way in which independents—and, as the chairman said, what we might call true independents, the stand-alone single service stations—live in the petrol market is to be able to drop their price selectively and then sell a reasonable volume before the stations around them adjust. They can do that even in Western Australia because of what I refer to as, outside of Western Australia, Fuelwatch in other states. They can do that because of what I refer to as the motorcycle brigade of Informed Sources. In other words, they are not on computer screens.

Senator FIELDING—We have been told it is the motorcar brigade and that we should not refer to it as the motorcycle brigade, I am sorry.

Mr Cassidy—Car brigade or cycle brigade, or whatever you want to call them. It takes a while for them to get around and pick up that the independent has dropped his price and for that to get fed into the databanks that, if you like, the more major operators have in front of them. Then they say, ‘Well, if we have a Fuelwatch system, we have to keep the same price for 24 hours and don’t have the ability to do that.’ That sort of issue is of long standing. It has been put to us by independents over a period of time.

The other proposition is one I referred to with Senator Eggleston. It was particularly put to us during our inquiry last year. It is the so-called rolling price leaders where the bigger operators have the ability to deliberately underprice some of their sites so that they get into the top 10 or top 20 cheapest lists that ever we compiled. Because they are a fair size, they can even in a sense be selling petrol at a loss to get their sites into those lists whereas independents do not have the financial wherewithal to do that. The argument is that the majors are able to create an impression that they are cheapest because they are in the top 10 cheapest sites. In the top 10 cheapest sites, you have three or four of the majors’ sites. That was the second argument put to us in relation to independents.

We can see logic in both propositions, so we had a fairly close look at that during the course of our inquiry last year. But, as I was saying to Senator Eggleston, we just could not see any evidence that independents in Western Australia had been adversely affected by FuelWatch. Sure, they had declined, but independents have declined across Australia. Indeed, they have been declining for the last 20 years and that is more to do with what is happening in the petrol market in Australia. But we could not see any evidence. Indeed, we had evidence presented to us that suggested that independents in Western Australia, following the introduction of FuelWatch, had probably done a bit better than independents in other states. I do not claim that is because of FuelWatch; I suspect it is due to other factors, but nonetheless, that was the evidence that we had in front of us.

Senator FIELDING—So this—

Mr Cassidy—Despite the logical propositions they put to us about how a FuelWatch scheme could adversely affect independents, we have not been able to find any evidence of that happening in Western Australia. I think we need to understand—

Senator FIELDING—I have that answer; I do not need clarification. I will just go from here. Are you giving us assurances that independents would not be squeezed out under FuelWatch any more than they would be squeezed out under current conditions? I think that is the real key to the issue here. Can you assure us that independents will not be squeezed out because of FuelWatch?

Mr Samuel—That is the point. I was just going to add to Mr Cassidy’s answer, Senator. There is no evidence that FuelWatch had an adverse impact on independents relative to any other impact that is being experienced throughout the rest of the country.

Senator FIELDING—But that is different from your assurance.

Mr Samuel—I will come to that. As Mr Cassidy pointed out, there is evidence that an increased percentage of service stations have been controlled or operated by independents in Western Australia, post FuelWatch, relative to the eastern seaboard. We need to understand that there are two groups of independents. There are the independent chains that I referred to before and there are the smaller independent operators that do not operate chains but that have one or two outlets, as the case may be. The fate of those smaller independent operators is almost entirely in the hands of the refiners and the wholesalers that supply fuel to them. If they do not supply fuel to them at a price that enables them to compete with others in the marketplace they will not be able to compete. It is not to do with FuelWatch; it is to do with the control exerted over them.

Senator FIELDING—I understand that.

Mr Samuel—If you want that assurance let me say that the experience in Perth, as it has been elsewhere, is that the smaller independents have tended to consolidate into larger groups, be they the larger retail groups like the Uniteds, the Gulls, the Neumann Petroleums, or the larger groups supplied by wholesalers such as the Liberty group and the like. Has FuelWatch had an adverse impact? The answer is no. Is there any reason why FuelWatch could or should have an adverse impact? The answer is no. Does that provide you with the assurance that you need? The difficulty that we always have in this area is that the survival of the independents, or their ability to compete, is not a matter that is related to FuelWatch; it is a matter related to the price at which they are supplied fuel by those that control the fuel supplies in this country—the refiner marketers and, to a lesser extent, the wholesalers.

Senator FIELDING—Given that time is short, you have probably read the APCO submission?

Mr Samuel—Yes. I have heard a summation of it, yes.

Senator FIELDING—Given that I do not have time now to ask questions on that submission, which is a pity, could you take my question on notice and respond to each of the points made in that submission? I think those are questions that Australians have, and APCO has asked them. It is important to get the ACCC to respond to those specific issues. Could you take that question on notice and respond to the specific case-by-case examples that APCO has in its submission?

Mr Samuel—We will do the best that we can, Senator. I have not seen the submission in detail but it may well be that the propositions that are put there, or the factual circumstances that are dictated there, might need to be tested by making inquiries of APCO. That will depend upon the level of cooperation we receive from APCO in that context. We will do the best that we can to give you that information.

Senator FIELDING—Based on APCO's submission?

Mr Samuel—Yes.

Senator FIELDING—I have one final question. I noticed a differential between regional areas and city prices. I think it has been put at about 5c, on average. Would that be correct? Is that right?

Mr Samuel—Yes. It varies.

Senator FIELDING—Given that it is 4c, 5c or 6c, does that not mean they are paying more in GST on petrol? GST is a percentage. Are rural communities not paying more for petrol than are city dwellers, just on the GST component?

Mr Cassidy—The origin and basic idea of the fuel grant scheme, which has now been discontinued—I will not take half the morning to try to explain the fuel grants scheme—was to compensate those in regional Australia for the possible adverse effect of removing wholesale sales tax and imposing the GST when the GST, as you say, in a sense runs off the retail price. There previous government recognised that and that is why we had the so-called fuel grants scheme. So your proposition is right. Given that price difference, the GST, in a sense on petrol sold in regional Australia would, on average, be higher than it is on petrol sold in the cities.

CHAIR—Mr Samuel, just before you go, there has been some criticism of the cost of Fuelwatch. Associate Professor Zumbo of the University of New South Wales suggested that Informed Sources should simply take it over. We heard evidence from Mr Steve Marshall, the state news director of Win Television in Rockhampton that it would cost him \$50,000 a market and \$250,000 a year to get relevant information from Informed Sources. Can you comment about the relative cost of the ACCC running Fuelwatch as opposed to just asking Informed Sources to run it as a public service?

Mr Cassidy—Senator, Informed Sources is a commercial operation. It gets this information and it sells it. If Informed Sources were, in a sense, to run a Fuelwatch type scheme, presumably it would want to be paid by someone—if not those being supplied the information, then by the government. The cost to the taxpayer of the Fuelwatch scheme is \$21 million. That is what we have been given to run it over four years. Without casting aspersions on Informed Sources let me say that if you start doing your arithmetic to reveal what it currently charges for the information—and even if you pro rata-ed that down to the fact that it would be supplying it to a lot more people—I suspect that your arithmetic would end up giving you a much higher figure than \$21 million over four years.

CHAIR—Thank you Mr Cassidy and thank you to the Australian Competition and Consumer Commission.

[10.08 am]

MOULIS, Mr Nicholas, General Manager, Australasian Convenience and Petroleum Marketers Association

CHAIR—Welcome. Would you like to make an opening statement?

Mr Moulis—Yes, I would, Chair. Thank you very much. Prior to doing so I would like to bring the committee up to date with our association. We were formerly known as the Australian Petroleum Agents and Distributors Association, or APADA, an industry body that ran for over 30 years. Just recently we successfully applied to the Industrial Relations Commission to have our name and constitution changed to better reflect our member businesses. I took my role only in the last few weeks. Prior to that I had a non-executive board position with APADA and I come with 14 years experience in running an independent wholesale and fuel retail business.

Senator ABETZ—How do you pronounce your acronym now?

Mr Moulis—It is ACAPMA, which is a mouthful when I get on the phone. ACAPMA is a national body representing the interests of distributors and retailers in the fuel industry. Our members are predominantly regionally based, delivering about 35 per cent of the product to end users and consumers in Australia, and handling about 75 per cent of all sales in regional and rural Australia through either retail service stations or delivered directly to primary producers, industrial, commercial and aviation accounts.

Today we are pleased to have been given an opportunity to comment on the Fuelwatch scheme. By appearing today we hope to address the concerns that ACAPMA members have with the proposed scheme, that is, its impact on the independent fuel retailer. ACAPMA members believe that the current deregulated retail fuel market provides the most beneficial outcomes to all participants. Regardless of the perception, the retail fuel market has produced a highly competitive configuration equally in the number of participants and in the structure used by all to compete for the consumer's dollar.

A market where customers and retailers balance their wants for price and margin continually can be constructed only when it is free from distortions and constraints, allowing competition to thrive. In all markets there are threats that endeavour to impede the function of competition. Australia is no exception. Those who have the ability to legislate within the fuel market need to be mindful of how statutory requirements may lead to the concentration of market power affecting the consumer's right to get the most competitive price continuously.

Whilst we know that Australia has the fourth lowest price in the OECD and the government excise and tax make up a large proportion of the retail price, petrol has always been seen by the public as a grudge purchase. ACAPMA members would agree that there is a requirement for transparency in pricing, but the landscape in the Australian fuel market has changed. Australia has become a net importer of both crude oil and refined product, with 70 per cent of our current crude requirements and 15 per cent of refined product now being sourced internationally. The days of excess volume being dumped cheaply on the local spot market has long ceased.

In addition, the impact of buy-sell arrangements based on international parity pricing between refiner marketers has meant that international factors directly influence the price of petrol. ACAPMA members realise that these adjustments to supply and demand within Australia and internationally are now the underlying drivers of the petrol price. Nevertheless, we contend that international factors withstanding, the current refiner oligopoly, with its captured volume, needs to supply further clarification as to how the terminal gate price is achieved. That will fundamentally allow the customer to determine whether the published board price is credible.

Fuelwatch will not address the magnitude of international supply and demand pressures on the Australian fuel market. If what I have said is true for the whole Australian market, the Fuelwatch scheme will then have even less impact on reducing the price paid by consumers in rural and regional Australia. The nature of the business in rural and regional Australia differs completely from the metropolitan area. The higher prices in country areas compared to the city are due usually to higher service station costs per litre of operation, higher costs of supply to service stations, and less competition in regional areas. The ability to get more customers by discounting in rural areas due to lower population does not necessarily translate into greater sales. Nevertheless, the focus on fuel pricing has affected the number of service stations in Australia and influenced their reduction.

A Fuelwatch scheme, by identifying lower prices which are often below cost for many retailers, can at times put pressure on up to 30 per cent of the market that may not be able to compete. Though we do not believe that low-cost selling or below-cost selling is a sustainable industry process, at this stage it is the function of a highly competitive market—one that requires independents to continually nip at the heels of major oil companies and supermarket retailers. ACAPMA members realise that the constraint that Fuelwatch will impose on the market affects the nature of risk in making the pricing decision, and making a business more risk adverse due to the inability to quickly adjust a price.

Simply, the operator of a service station will not risk placing the price at its most competitive level for the next 24 hours in fear that it will be uncompetitive with the market—and all this because regulation will affect the dynamic equilibrium of fuel pricing, providing the operator with only one reliable way to remain profitable and competitive. Get this wrong and, at best, the customer will pay too much and, at worst, an independent fuel retailer will go out of business. Thank you, Chair.

CHAIR—Thank you.

Senator ABETZ—Thank you for your submission. I assume that, with a lot your members, whilst petrol is a major commodity that they sell, they also use petrol to attract customers to their site and they then hope that those people, in paying for their petrol, will also spend in their retail outlets?

Mr Moulis—Yes. It is true to say that petrol is a part of our sales mix. It is a large portion of that, as are cigarette sales and as are other products.

Senator ABETZ—But if you are out of the market in relation to the price, the chances of attracting them in are greatly diminished.

Mr Moulis—They are greatly diminished.

Senator ABETZ—I read with interest in your submission that at least a number of your members are family businesses?

Mr Moulis—Yes.

Senator ABETZ—As I understand it they are the ones about which you are particularly concerned. If you were to listen to the ACCC it would assert that you guys were just jumping at shadows; that there was nothing to fear because the percentage of independents in Western Australia has increased. But, of course, that is in the context of total numbers decreasing and, I dare say, independents not being able to sell out of their sites and, therefore, converting more to retail. But I would be interested in your perspective.

Mr Moulis—I was amused to hear the debate that occurred earlier. Economic theory is wonderful but reality is where we work. Mums and dads, small businesses and small enterprises really are the backbone of the fuel industry, especially in rural and regional Australia. We can go on about economic theory and we can go on about percentages of movement in the number of independent retailers in a given market. I think we need to be mindful that in rural areas these businesses employ many people. The business that I had was one of the largest employers in some regional and rural towns. If Fuelwatch threatens anything it threatens that backbone. It threatens the ability for businesses to make a reasonable profit. I do not think anybody should question that. However, I believe that if it threatens that ability it threatens the ability for us to employ people in a given market and to support those communities.

Senator ABETZ—Does FuelWatch apply over all Western Australia, or only in some areas?

Mr Moulis—I cannot comment because I do not directly know. I know that it applies in Perth and it applies—

Senator EGGLESTON—It does apply.

Senator ABETZ—A Western Australian senator—Senator Eggleston—indicated to me that it does. I was very interested in the statement at the bottom of page 3 of your submission. You are telling us about unmanned sites and how they have been impacted. Members of the public, undoubtedly just falling around, have changed the pricing board and, as a result, an infringement notice is issued. The company or the family has to pay a fine and put an additional lock on the pricing board so that the numbers cannot be altered without a key. How do these unmanned service stations work?

Mr Moulis—The way they work is through the tyranny of distance and making sure that our customers are served well. A lot of our members have placed sites in remote areas where a truck driver may turn up once or twice a week to deliver product. No members of staff are on site. There is a machine in the industry called a

card acceptor, which allows a customer to use a credit card or a fuel card to purchase fuel from a site that is completely unmanned. The only time anyone gets to the site is to deliver petrol. In the past, before FuelWatch mandated board prices and other things occurred in the Western Australia fuel market, the price was changed at those sites electronically via a mechanism that would allow the pump price to be changed.

With the introduction of FuelWatch the member in point to whom I spoke in regard to this matter said that he incurred a cost to place a price board at the site because that was the way it was to be monitored to ensure that he was complying with the legislation. After incurring that cost he was then breached. I believe that a truck driver who bought some diesel from the site decided while he was filling to change the board price. He walked up to it, changed it and the company was breached.

Senator ABETZ—In short, the overall experience from your membership of independents in Western Australia is that FuelWatch has not been of assistance to the longevity of independents?

Mr Moulis—Of their business, no.

Senator ABETZ—Thank you.

CHAIR—Mr Moulis, going back to that example I understand that whole towns in Western Australia are exempt because of a lack of competition. Certainly the federal bill allows for exemptions. I would have thought that those unmanned sites out in the middle of nowhere, because there is no competition, would not be required under the bill we are discussing to be a part of FuelWatch.

Mr Moulis—In regard to that experience in Western Australia I can only comment on what I was given by a member. In regard to the legislation for a national scheme, if I read it correctly there is the ability for local councils to make submissions for Fuelwatch to be allowed in their area. To me that would suggest a scheme of this nature could also be based in rural and regional areas.

CHAIR—It could be, but it is unlikely to be.

Mr Moulis—I say that it could be and you say that it is unlikely. However, I suggest that it would be up to a local council and then the administrator of this scheme, that is, the ACCC or whoever, to make that decision. What I am saying is that we can suggest ‘could’, ‘would’ or ‘like’ but the legislation will allow it to happen.

CHAIR—That service station was breached by the monitoring authority.

Mr Moulis—Yes.

CHAIR—What was the outcome of that breach?

Mr Moulis—It was given a notice but not fined.

Senator EGGLESTON—I would like to ask you about the reasons for a reduction in the number of independents. We heard evidence in Western Australia that 60 per cent of sites in Western Australia are now controlled by supermarkets. Last Friday we heard similar evidence in Sydney where again the percentage was set at 60 per cent. Are the supermarkets the key factor in the reduction in the number of independents?

Mr Moulis—The fuel market in Australia is a market that is not specifically just retail; it is market that has wholesale supply and retail supply. We need to understand something about the fuel market in Australia. The ability for an independent to thrive is curtailed at many levels. FuelWatch in Western Australia is one level. Another level is the competition within the retail market in regard to the entrance of the supermarkets with the freeing up of fuel volume, which really was based on the merger of Caltex and Ampol back in the mid-1990s.

There is also this idea about the supply of fuel. On several occasions during its submission I heard the ACCC talk about the oligopoly that has occurred at the refiner and terminal gate, or behind the terminal gate in Australia. That really is the underlying problem. We can go on in regard to Fuelwatch and the effect that it will have on the independent retailer in Australia. It will have an effect—do not get me wrong—but the supply of fuel in Australia is caught up with a smaller number of groups that can determine what happens in the retail market.

Let me give you an example. If you do not mind I will quote from a graph from the ACCC’s inquiry in 2007 which shows a five-city average of the fuel price in Australia yearly from 2004 to 2007. That shows that the average price in Australia in 2004 was 90.3c per litre across the five cities.

CHAIR—On what page is that?

Mr Moulis—That is on page 129. Over the four years that increased to an average price of about 121.6c per litre. We really need to draw out of this how the ACCC has shown the break-up of the margins, and where

people are making money and losing money in this area. In four years the tax on fuel—the excise and GST—increased by 2.8c per litre. The wholesale margin—under the ACCC’s description that is the margin made by the refiners prior to terminal gate before it gets into the market—increased by 3.8c per litre. The price of crude oil increased by 29.2c per litre but the margin that the retailer makes increased by 0.3 of 1c. Why do you think it is tough in our market? The price has gone up. Other people are making money out of this and the retailer is not. I understand that the customer has a grudge about the fact that fuel has gone from 90c to \$1.21c. The fact is that that has all occurred somewhere else; it has not occurred in the retail market.

Senator EGGLESTON—We heard evidence in Sydney from Caltex that it sold fuel to Woolworths at a very good price. From what you are saying would you suggest that one group of retailers might be making a good profit on the sale of fuel, namely, the supermarket-associated retailers, because they are getting fuel at a much cheaper price than the independents?

Mr Moulis—I will not comment on the profit that someone makes. However, I will say that there is the ability for larger players to buy at advantageous prices.

Senator EGGLESTON—And that affects?

Mr Moulis—Without a doubt that affects independent retailers, mum and dad businesses, and my members.

Senator EGGLESTON—I would like to ask you another question, but I think I have to hand over to Senator Fielding. Is that correct?

CHAIR—If you have no further questions, yes.

Senator EGGLESTON—If not, I could ask you about gaining.

CHAIR—Senator Cameron has questions.

Senator EGGLESTON—I want to ask you about gaining within the system by the supermarkets, which you talk about as the potential use under Fuelwatch of sophisticated pricing strategies.

Mr Moulis—Yes. The ACCC gave it a name—the idea of rolling price leaders. In all retail marketing I believe it is about creating a perception in the consumer’s mind. Fuelwatch allows large retailers to create a perception that they are discounters. My belief is that in that case Fuelwatch plays into their hands.

Senator CAMERON—Mr Moulis, you were worried about your members in regional areas. Are you aware of the declared localities in the bill?

Mr Moulis—Yes. I state, though, that not all our members are in regional areas, but it is something that concerns us all.

Senator CAMERON—You do not believe that proposed section 6 of the National Fuelwatch (Empowering Consumers) Bill 2008 on declared localities gives protection to the members that you described?

Mr Moulis—Senator, I will have to take some advisement on that. My reading was that submissions could be made to put areas or council areas in or out of those proposed boundaries. If that were the case we would have a concern because it might draw in some of our members. Once again I state not all our members. We represent regional and rural Australia, but not all our members.

Senator CAMERON—But you raised a specific problem that in my view could be dealt with under proposed section 6(3) of the National Fuelwatch (Empowering Consumers) Bill 2008. It lays out six areas that deal with that issue. There are six values that deal with that issue. Are you not aware of them?

Mr Moulis—I will take that on advisement at this stage. I could not answer that question.

Senator CAMERON—Have you read that part of the legislation?

Mr Moulis—I have read through it but I cannot specifically remember it.

Senator CAMERON—Given that you have raised this issue, I would have thought that that part would have stuck in your mind because that is the issue that deals with it.

Mr Moulis—I understand the point of your question, but at the moment I will not answer it.

Senator CAMERON—Do any of your members subscribe to Informed Sources?

Mr Moulis—Not that I am aware of, no.

Senator CAMERON—Given that other fuel retailers subscribe and they have access to almost instantaneous information about the price of fuel and how the markets operate, would that not be a big disadvantage to your members if they did not have access to that?

Mr Moulis—On several occasions you have spoken about the cost of Informed Sources. When our members play in the market making money is hard enough. To go and spend \$25,000 or \$50,000 on Informed Sources, the net gain for a small business is close to zero.

Senator CAMERON—I agree with that proposition. Are you aware of the argument on information asymmetry?

Mr Moulis—I am aware of the argument of information being provided. To get a commentary on asymmetry, I do not understand exactly that means. I am not an economist.

Senator CAMERON—Neither am I. However, I understand that one side gets information. For instance, the big suppliers and big retailers get information. Maybe your members or the consumers do not get the information. Does FuelWatch not assist in providing information to the consumer?

Mr Moulis—If a consumer subscribes to it I believe it would. My question would be: does everybody in Western Australia subscribe to the information?

Senator CAMERON—Can I ask you to comment on the evidence that we have received from the Department of Consumer and Employment Protection in Western Australia that did a survey in 2007? Seventy-three per cent of 400 respondents reported that they used FuelWatch—that is a big return of people who use FuelWatch—and 65 per cent of those who used it were satisfied with it. Is it not a good thing that consumers use it in such numbers and that the satisfaction rating is high? Is that not a good thing for consumers?

Mr Moulis—I am unaware of the report. Could you give me the figures again? You referred to 73 per cent of what?

Senator CAMERON—Seventy-three per cent of the 400 respondents surveyed in 2007 reported that they used the FuelWatch service—that is a high penetration of people using FuelWatch—and 65 per cent were satisfied with it.

Mr Moulis—I would suggest that anybody who subscribed might have been satisfied with it. Once again I suppose that it boils down to the motivation of the consumer. If the consumer is motivated to understand the price of any product, he or she will go out and try to achieve that, regardless of whether or not the government monitors it.

Senator CAMERON—You spoke about getting the most competitive price continually. Fuelwatch is designed to try to give consumers the most competitive price continually.

Mr Moulis—I would contend that that has not occurred in relative markets. We had a big debate about markets. I suggest that because of this idea of risk being placed on the pricing decision I do not believe people in Perth have achieved the lowest possible price.

Senator CAMERON—Have you done any modelling on this?

Mr Moulis—No, I have not. I said it was my perception, Senator.

Senator CAMERON—I have the same cynicism as you about modelling, but it is important. It is an important part of that analysis.

Mr Moulis—Those who have modelled have shown that the average cycle in the price in Melbourne in the first six months of 2007 was 9.5c. The average cycle in Western Australia was 7.5c. Did Western Australia get the best possible price? Based on that, probably not.

Senator CAMERON—Are you seriously putting to me that that simple analysis determines whether or not Fuelwatch operates effectively?

Mr Moulis—No, I did not assume that. I just said there was a big gap in the cycle. I could state today, as the ACCC did, that the price in Sydney varied from one price to another and the price in Perth varied from one price to another. The fact is that at any given moment in any capital city prices will be different.

Senator CAMERON—You spoke about the current deregulated fuel market and, on the other hand, you said, ‘We are really controlled by the suppliers or the wholesalers.’ So there is not a deregulated market in the normal sense of a free market operation, is there?

Mr Moulis—At the moment all sections of the market are deregulated. The fact is an oligopoly has controlled the market and that oligopoly is at the wholesale end—it is not at the retail end—and that is where control sits.

Senator CAMERON—Thank you.

Senator FIELDING—Both political parties need to realise that there would be concern if Fuelwatch came in and independents were squeezed out of the market because of it. That would be a matter of concern. You raised that issue, the ACCC was asked the question, and it gave us some answers. It seems as though there is no agreement on that issue. What do we do with that because that is a concern for Australians? I think we need to try to get to the bottom of that. Whether or not the price comes down you can look at modelling and what not. The issue is that if it squeezes out independents a lot of them are family businesses and that would be a matter of concern to a lot of Australians. I need to understand this issue. You are passionate about saying that it does. You heard the ACCC this morning. What comments would you make?

Mr Moulis—Let us move this to a different industry for two seconds. Yesterday was a prime example of it. Yesterday the ACCC said, ‘The supermarket industry in Australia is too concentrated and it is not providing the best price for consumers.’ All of a sudden, on the other hand we are saying, ‘It is fine. The overall percentage of independents has grown, even though it has reduced.’ I find those two messages incredibly confusing for our members and I really do not understand them. If governments are there to protect both the consumer and businesses I do not believe that running a Fuelwatch scheme will achieve that. It will not allow small business to compete competitively with the larger groups. Maybe in 10 years time we will be sitting here having another discussion and saying, ‘How do we get independents back into the market?’

CHAIR—Thank you, Mr Moulis.

Proceedings suspended from 10.37 am to 10.50 am

HARDING, Professor Don, Private capacity

CHAIR—Professor, would you like to make an opening statement?

Prof. Harding—I want to keep it fairly brief because I missed the ACCC evidence. I was caught on the Sydney Road tram for an hour and a bit, which is extremely annoying, so I hope to answer questions from the committee about their evidence because I did not get to hear it myself and I will not be able to see it until I see the transcript. I am basically an academic economist. My interest is how evidence is used in policy making and that is really why I am here. I am particularly interested in how econometric work is used in underpinning policy.

As I said, I want to keep this statement short. The main thing to emphasise to a committee such as this about how evidence is used is that it needs to be replicable in the following sense: that the procedures that are used to develop the evidence are described. That could be how the data is collected, how the econometrics could be done, or it could be how experiments are done. If it is experimental evidence, the data is described carefully. The most important thing is that the data is publicly available because without the data being publicly available it cannot be replicated independently.

Replication is absolutely essential to science. Often you see that peer review of journals and the like is put up as being a substitute for that. Peer review is very much like the tombstone at the end of a piece of research; it is like those tombstones you see in the paper that say that some company has raised \$100 million, or whatever. It tells you that it has been done and tells you it has been through a process, but the key thing that gives strength to it is that it can be replicated by someone else. Having said, that I would like to pass myself over to the committee for questions on what I have done.

Senator ABETZ—We heard a demolition derby on you from the ACCC this morning, so I thought we might just take you through some of your experience. You have told us you are a professor of economics. That is great, but, without becoming too personal, you are about 50 years of age?

Prof. Harding—That is about right.

Senator ABETZ—Yes, and a great age to be. Have you been in the academic world most of your life, or in the area of economics most of your working life?

Prof. Harding—I have been an economist most of my working life. I have only been an academic economist relatively recently. I can go through my career, if that is helpful.

Senator ABETZ—If you could, please.

Prof. Harding—I joined the Bureau of Statistics in the late 1970s. I worked in the retail trade and sampling area there, so I have experience with statistics in that sense. I moved from there to the Productivity Commission. I worked for a considerable time at the Productivity Commission doing inquiries of things like the automotive industry and the like. I am a general applied micro economist in that area doing both empirical and theoretical work.

Senator ABETZ—I am sorry, so it is applied micro, did you say?

Prof. Harding—In that period, that is what I was doing.

Senator ABETZ—Yes, thank you.

Prof. Harding—I then moved to the Treasury and I worked on both macro and micro policy at the Commonwealth Treasury. I was head of the policy research unit for, I think, a bit over two years there doing that kind of work, so I have some familiarity with the bureaucracy. I then moved to the Melbourne Institute where I was director of the Centre for Business Cycle Research for a period from about 1994 until relatively recently, so that it covered doing survey work as well as doing modelling, econometric modelling, and the like.

I finished my PhD rather late in life, which is an embarrassing thing to have done, but I moved more into academic teaching at that stage. My area of research at the moment is basically the intersection of econometrics and macroeconomics. Most of my published papers are in the area of econometric methodology as it applies to macroeconomics. I consider myself fairly well versed in econometric methodology.

Senator ABETZ—Wearing my hat as the shadow Minister for Innovation, Industry, Science and Research, I may have written to you in recent times congratulating you on being the most cited, is that right?

Prof. Harding—Correct. I won the Thomson ISI Award for being the most cited economist over a period of 10 years in Australia, so that covers all fields of economics and econometrics. It is primarily focused on high-quality international journals.

Senator ABETZ—If people are quoting you and citing your works, I dare say that is an indication that those who are citing your works are of the view that there is some robustness and rigour and worthiness attached to those works. Would that be a fair comment?

Prof. Harding—That is a fair comment, yes. I do not like being—

Senator ABETZ—Because this morning we were told that you violated the rules of statistics; that you engaged in a statistical trick; that you pick and choose your data in relation to the two articles that you have written about the econometric modelling applied by the ACCC to Fuelwatch. While you have indicated that you would like to see the transcript and respond, and could I invite you to do that, it would be very interesting to hear your quick response to those assertions made by the ACCC.

Prof. Harding—Is that a reasonable replication of what was said?

CHAIR—I would give a slightly different interpretation, but undoubtedly they were critical of your methodology.

Prof. Harding—That is an extraordinary statement if it is true, and I do not want to defame them.

Senator ABETZ—No. Just for clarity I took a note, ‘violates rules—picks and chooses data’ and then ‘statistical trick’ I put in inverted commas.

Prof. Harding—Did they describe how the data was collected for the first paper? The ACCC did not release the data and that violates the basic principles of scientific evidence. I do not think it can be regarded as evidence until the data is released for public inspection. So what I did is I took a graph—I think it is graph S1 in appendix S—and there are two computer programs you can use. One is called Paint and one is Engauge Digitiser. Effectively what those programs do is allow you to place the crosshairs of your computer pointer over each data point and somewhere on the computer screen will appear numbers that tell you the pixels left and right of that data point.

I recorded those pixels by putting the pointer at the centre point for each data point that was in the graph. Then there is a simple linear transformation from the scale of the graph back to the actual price movements, or, in this case, the margin. So that was the base data. The base data was obtained in two ways. You can get some indication—and in a sense the two ways are independent other than that they rely on my eyes, and I did not want someone else’s eyes used in there—if you look at its figure 2. If that replication is good, the two series should lie along a 45 degree line, and you can see that they do. The correlation is about 0.999. It is quite strong.

I have not picked and choosed the data in that sense—I just abused the English language though. I did not pick and choose the data, but what I have done is try to replicate the data in the graph. This is a well known thing that goes back to Rene Descartes, who showed that graphs and maths are the same thing. I torture my students by telling them that. It is amusing to be able to do it in public life and show that they are exactly the same thing. The data that is used there is a nominal margin. The transformation that I used that the ACCC may wish to complain about is that I needed to put that into real terms because it is inappropriate. We can discuss the reasons why it is inappropriate to use a nominal margin for the econometrics. It is also economically inappropriate.

I put that into real terms by dividing by the CPI which I interpolated onto a weekly basis. There will undoubtedly be some error in that interpolation, but it is not huge. One could do more sophisticated analysis; there is a procedure called the Kalman filter that one could do to work out the exact weekly movements in the underlying price of fuel and the CPI. One could do all of those kind of things. My judgement is that it is unnecessary but I am more than happy, if people think they are interested, to do that kind of thing.

As to the second paper, the data there was given to me by Informed Sources. I need to say that I did not intend to write that second paper, nor did I approach Informed Sources for the data. What happened was Informed Sources was going to check the data in my original paper. I sent them the data that I had and said, ‘You are free to do whatever you wish with it.’ It is the standard academic thing to do that. They realised that they could not go from that data back to their data because essentially the description of what the ACCC did in their appendix S is so poor that you cannot do that backward transformation. You do not know what tax rates they used. You do not know the transformations that they used, so you cannot do the reverse engineering.

One day Informed Sources rang up and said, 'We'll give you the data under certain conditions'—that I cannot sort of get back to the commercial data. So the transformations in this paper are not about hiding anything else, other than protecting Informed Sources' commercial interests. That is essentially what I am doing there. The reason that I wrote the second paper was that Informed Sources gave the data to me. They said they were impressed with my work. It was not available to other academics. I felt an obligation to do the work in the hope that it would become more widely available and also on the understanding with Informed Sources that I could give the transformed data that did not compromise their commercial interests to other people. That is how the data is arrived at. I do not believe that you could describe it as picked or chosen or tricky, but that is up to people's interpretations.

Senator ABETZ—Are you aware of Professor Sinclair Davidson's analysis?

Prof. Harding—Only briefly. I read it quickly, and Sinclair and I exchanged a couple of emails. The main question I had for him was I was not sure of the exact dates at which Coles and Woolworths entered into Western Australia, and I needed those to construct dummy variables. He referred me, I think, to the Informed Sources evidence. He gave me the dates and told me where to look for those dates. That is the main contact that we had. I sent him a copy of the paper—it is the usual academic thing—to read.

Senator ABETZ—Now, was it your first or second paper? In *FoolWatch: a case study of econometric analysis*, on page 1 as a footnote you have:

This paper is somewhat outside my usual fields of research (macroeconomics and econometrics).

You consider yourself to be an expert in econometric modelling?

Prof. Harding—In econometrics and in time series, but what I meant was I was not referring to those technical parts. What I was referring to was the issue of how evidence is used in policy.

Senator ABETZ—Yes.

Prof. Harding—Where I do not think I am expert is in the kind of thing that Stilgoe, Irwin and Jones have done in the Demos project. I had not done so much of that until I wrote this paper. Having written the paper, I think I have some more expertise in that now than I had beforehand.

Senator ABETZ—Yes, but you do consider yourself to be an expert in econometrics?

Prof. Harding—Of course. That is what most of my publications are.

Senator ABETZ—Yes.

Prof. Harding—They are econometrics journals.

Senator ABETZ—Because I think there was some questioning of that this morning, but you will see the transcript in due course. I was interested to note the second page of your submission dated 15 July. It was interesting where you said:

A natural but incorrect response is to blame the econometricians who undertook the ACCC analysis. The public service has many very able econometricians and economists and I draw no adverse conclusion about those who undertook this work or those who reviewed it.

I might say so, that is a much more generous approach than the one taken to yourself by the ACCC this morning and, if I might venture further, somewhat more professional. You worked in Treasury for some years?

Prof. Harding—For two and a bit years, I believe, yes.

Senator ABETZ—Two and a bit years. You also commented on the Treasurer's comment that the departmental advice in relation to Fuelwatch was 'too academic', and you venture to suggest that rejecting departmental advice in such an out-of-hand way is unlikely to produce good policy. That is developing that theme that you were talking about in that 1 July article about evidence-based policy or policy-based evidence.

Prof. Harding—Yes.

Senator ABETZ—Yes. Thank you.

Senator CAMERON—Dr Harding, I am interested in your name for your paper, *FoolWatch*.

Prof. Harding—Yes.

Senator CAMERON—That does not seem to me to be a very academic approach and seems to be highly political. I am not sure who you are saying is a fool.

Prof. Harding—I am more than happy to tell you.

Senator CAMERON—Just let me ask this: if I was persuaded by the arguments of Professor Wang or Professor Gans, as distinct from your arguments, does that make me a fool?

Prof. Harding—No. Let me—

Senator CAMERON—Just let me say it. Just let me finish this and then I am happy for you to comment. Dr Stephen King gave evidence here this morning that the modelling within the ACCC was done by a Dr Richard Hayes. Professor Gans came out with a contrary view to your view, and Professor Wang from Boston has given some information in his paper that would be at odds with some of your arguments, mainly on methodology. Does that make them fools?

Prof. Harding—No, of course not.

Senator CAMERON—Well, who are the fools?

Prof. Harding—Okay. That is a very interesting question. Let me go to the titles of papers. If you browse the academic literature you would see that this would not necessarily be an unusual paper. I think titles of papers of mine are *Dissecting the cycle* and *Knowing the cycle*, which have certain puns in them. That is not an unusual thing to do. Earlier you commented on how dry econometrics is. You know, people often give titles to papers so that, you know, it is like a sweet in a sense. This has got some very tough econometrics in it. You know, here is a small piece that you may find amusing. If you do not find it amusing, I am more than happy to apologise for the unhappiness it has caused.

I do feel though that—I want to make it clear I was not thinking of households or consumers buying petrol as being fools. I obviously have considerable sympathy for such people—we do our weekly shopping—nor was I considering anyone who wished to criticise my work on an academic basis as fools. I did, however, think that people who drive Commonwealth cars in Canberra and who have subsidised petrol put in those cars, who do not bother to test the evidence on things like Fuelwatch and those things and who do not bother to look at the econometric evidence in detail—I am more than happy to call those people fools.

Senator CAMERON—This goes to the crux of your paper, really, what you have just said. The paper does not really go to the terms of reference for this committee. The paper is substantially based on the evidence based approach and your critique of the need for an evidence based approach. Then you go on to say, ‘Here’s what should happen.’ You say Fuelwatch of itself is unimportant. If Fuelwatch can give consumers access to the lowest retail price, why would that be unimportant? It is not important to you, but it would be important to consumers to be able to access a lower price, would it not?

Prof. Harding—Of course it would, Senator. But the claim that is made, that is cited by Kevin Rudd, Prime Minister, was that this was a government that was interested in pursuing evidence based policy. The claims that have been made through the period from, I think, early April—I forget the precise date—were from several of the cabinet ministers of the federal government who appeared on TV and said, ‘This has got strong econometric evidence behind it.’ They said the econometric evidence was convincing. Okay.

It seems to me then for an academic that I did not get interested until substantially after that—I think it was towards the end of May, beginning of June, when I sort of happened to look at the thing—that I looked at the graph in the report and then I looked at the econometrics and I thought, ‘I wonder’. I looked at some blog things where people or one professor had commented on a blog that there is no way that you could prove anything from this. So it seemed to me that here was an interesting research question for an economist such as myself to look at. That is, I think, a perfectly reasonable and legitimate thing to do. How you use this, as both the senators and the government, that is really up to you.

Also, at the end of the day, you will see at the end of my first paper I make the point that there are lots of things that we cannot decide on the basis of econometric evidence. There are lots of issues that fall into that category. This may well be one from the senators’ perspective; I do not know. From mine, I think you can come to some conclusions. But then it seems to me that it is reasonable for politicians to make the decision. That is why you have politicians—to make decisions on those things that we cannot decide upon purely on the basis of evidence. What I object to is a claim that the evidence is all one way on such an issue. I think that is a reasonable thing for a professor of economics to say.

Senator CAMERON—The evidence can be different from different academic analysis and different information going into models, all of that thing that we see. You are not only one of the most cited economists, you are one of the most controversial economists.

Prof. Harding—Do you mean that in a good way or a bad way, Senator?

Senator CAMERON—It varies. Can I say—

Prof. Harding—Before you go back to this, there is one thing I wish to say that may help a little bit before you go down that track. You are going down the track of reasonable people can disagree; what makes you special? That is really the track that I think you are going down. There is no claim that anything makes me special. I try and generally be a humble person about my work. The issue here that I think distinguishes me from the other protagonists in this debate is that if someone emails me and says, ‘Will you please give me the data that you digitised?’, I will give them the data that I digitised. I have described in here how to do it so that can go away and check it independently. If someone says, ‘Will you give me the data in the second paper?’, I have done that in such a way that I can provide that. I have to check with Informed Sources.

Senator CAMERON—But is that not a separate issue?

Prof. Harding—No, it is not. It is an absolutely central issue because everything else you are doing, and what I understand the ACCC tried to do today, is trying to impugn my reputation. There is a little bit of a hint that what you are doing now is that. The easy way to settle this is for the ACCC to put the evidence out in the public and to let other academics look at it. I am more than happy to be criticised.

Senator CAMERON—Let me say this: I am not trying to impugn your reputation. Let me make that clear. I think you have got a reputation of being an eminent economist and I am not challenging that. I am simply saying that your eminence and your citings do not give you complete knowledge and do not give you all the answers. That is the proposition I am putting.

Prof. Harding—I would like to put in *Hansard* I am a very humble person about my ability.

Senator CAMERON—Let me go to exactly what the ACCC said this morning, for your information, and what some other academics say about your work. I would like to get your comment. It was indicated that Dr Hayes did the modelling for the ACCC.

Prof. Harding—I was told that informally. I only knew that informally.

Senator CAMERON—That was the evidence this morning. What was put was that your second paper violates the first law of econometrics. It picks and chooses data and every outcome is wrong. That was put by Dr Stephen King. It then said that you looked at the east coast data. You did not like that. You then went to Adelaide. You threw Melbourne out and you saw Sydney as more stable, so you ran the numbers on Melbourne. Your first submission was a statistical trick.

Prof. Harding—Yes.

Senator CAMERON—It was a time series data break, and I think that was the bulk of the critique that was put forward. You have also had other critiques on your work in the past when you argued that unfair dismissal laws would create 77,482 jobs—not 481, not 483, but 482 jobs—and that to remove unfair dismissal laws would cost the economy \$1.3 billion. Other economists looked at your work. There was a critique from Barrett, there was a critique from Robbins and Voll, and Franz and Oslington said that the likely gains were extremely small and the proposition at the heart of your argument is breathtaking for its lack of logic and empirical support.

Some of your previous work is quite controversial, and this continues that controversy. It seems to me you like picking work that is putting you in the political limelight, and this is part of that approach. That is why you call it *FoolWatch*.

Prof. Harding—Okay. Let me start from the end. I think I have been an academic economist since 1994, mainly at the Melbourne Institute. In that period the papers that would have been political in some sense—I think there are probably three of those. Two of them were consulting work. One was consulting work when I was at the Melbourne Institute. The other one was for a private company of my own. The third one was this paper. I do not really see that as being aggressively out there in the political sphere. Academic economists have a job to be relevant to the world. I would not see that I had done anything much more than that.

I think there is a danger in being too boring, Senator. I admire you on TV. I admired you as a unionist. You are one of the most entertaining speakers that I know. I do not always agree with you, but I love the turn of phrase. I love Paul Keating’s turn of phrase. I think the country is richer for that. If you want to censure me for that, that is fine, but I just think it is not a serious or sustainable censure. Let me go back to unfair dismissals. That was the first time I worked—

CHAIR—Professor Harding, I appreciate that it was a fairly long question, but we are running fairly short of time and I do not think it is fair—

Prof. Harding—Oh.

CHAIR—I appreciate that was in the questions but I am just—

Prof. Harding—Let me just say a couple of words about that. First, some of the people: Barrett, never seen the criticism. Senate inquiry: one of the reasons I chose to appear this time was because for that Senate inquiry I was not told that it was on, I was not invited to appear before it, I had no idea, and then I saw public discussion which trashed my work. The number that was quoted by me was never used in the paper as the number of jobs created by the unfair dismissal scheme, or the loss of jobs by abolition of the unfair dismissal scheme, in a sense. It was a cumulative loss over time from businesses that had gone from having some employees to no employees. There is a separate calculation in that paper which no-one cites—the 45,000—which was actually my estimate that I stand by. As to Oslington—

Senator CAMERON—But that is what the government used, though, and used—

Prof. Harding—I am not responsible for the government.

Senator CAMERON—Yes.

Prof. Harding—I am an academic. I have very little interest in party politics.

Senator CAMERON—The then government, I must say.

Prof. Harding—The then government. Oslington and I have talked several times about this. We agree on quite a bit about this. I refereed his paper, actually, for the journal and said that that was fine. You know, the point is that he came to very similar numbers. We disagree about the costs that he included; I included more costs and got a bigger effect. There is nothing wrong with that, and I find some of the words that you quoted from Franz are not unusual. If you read some of the things that Paul has written in the newspaper; he says some pretty strange things at times, but I am not going to say anything more than that. I am not going to defame him in the way that he has apparently done to me.

As to picking and choosing the data, this is an extraordinary claim. What I have done is chosen the most sensible and stable of the variables I could put on the left-hand side as something explanatory so that I could control for all the other cities. I then, rather than imposing particular constants, as I think people want me to do—they want me to choose particular parameters by choosing particular ratios for the left-hand side variable—I have put them all on the right-hand side and said, ‘How much does the movement in other states explain the relative movement in the margin in Western Australia relative to Sydney?’ I had to have one relative margin to protect Informed Sources because when you put the relative margin in, that means you cannot work out the absolute price and say their data is safe. So that was there to protect their data.

Senator CAMERON—So your paper is prescribed in terms of how it can deal with it because you are protecting Informed Sources?

Prof. Harding—No. What I need was I could use two things: I could use the Mogas Singapore price. Now I asked for a quote for that and they very generously said that to an academic they would give it for US\$2,000. If someone wants to—you know, this is for a time series. When I ran data collection for the Melbourne Institute, we gave it out for free to academics. They wanted US\$2,000 for it. I cannot put up that kind of money, so what I did was use the Sydney price. There is a graph in the paper that shows the movement of the relative prices so that you can tell there is not a huge amount of difference in which one you use. So there is nothing particularly wrong with doing that. There is certainly nothing that is a devastating criticism. If someone wants to buy the Mogas data for me, I am more than happy to redo the estimation with the Mogas data.

CHAIR—Right. Thank you.

Senator CAMERON—Thank you.

CHAIR—Thank you, Professor Harding, for your evidence here this morning. I now call the Victorian Automobile Chamber of Commerce.

Prof. Harding—Senator Hurley, one thing: can I give a written comment on the ACCC as part of my evidence?

CHAIR—Certainly, yes.

[11.24 am]

CONROY, Mr Terrence Philip, Manager, Service Station and Convenience Store Division, Victorian Automobile Chamber of Commerce

RUSSELL, Mr David, Senior Manager, Government and Public Affairs, Victorian Automobile Chamber of Commerce

TRELOAR, Mr Gary John, Executive Committee Member, Service Station and Convenience Store Division, Victorian Automobile Chamber of Commerce

CHAIR—I thank the Victorian Automobile Chamber of Commerce for coming in today. Make an opening statement, if you wish.

Mr Russell—Good morning. The Victorian Automobile Chamber of Commerce is represented here today by me, by our service station division manager, Terry Conroy, and by a member of the VACC, Gary Treloar, who is a service station operator from Ballarat. We are here with a keen interest in these matters, obviously. The VACC represents more than 350 small business owners who operate service stations in Victoria and we represent the Tasmanian Automobile Chamber of Commerce.

Senator ABETZ—Hear, hear. That is very important.

Mr Russell—Yes, Senator. I note that this committee is not visiting Tasmania and we may take an opportunity, if it is possible—not today—to provide some information from our Tasmanian members because they do not want to miss out.

Senator CAMERON—This is a big opportunity for them.

Mr Russell—There were some operators in Tasmania who wanted to attend the hearing. It had been arranged, but they were not able to do that. Perhaps I will quickly outline the VACC position on Fuelwatch—very quickly. Our position is that we believe the theory of Fuelwatch is flawed because independent owners will not be able to compete individually against centrally controlled networked numerous and strategically located supermarket sites. We think that competition is likely to be reduced by exiting independents and would further concentrate market power with the supermarkets.

The goal of assisting consumers with lower prices and providing more information is unlikely to be achieved, if price comparison information is readily available already at retail outlets and service stations as you visit them or drive by and on the Internet. The MotorMouth website, for example, is an excellent service, providing price information on fuel. On the proposal that retailers set the price daily before 2 pm for 24 hours, we think that will discriminate against small business owners, especially when the cost price for fuel for the next day may not even be known; that is, the TGP price has not been set by the oil company.

Fuelwatch will prohibit retailers from competing against each other by adjusting fuel prices during the day. They will not have the opportunity to flexibly change their price. This is a feature of the retail fuel market, and removing the ability to change the price will work against competition and strangle small businesses. As I said before, information about retail prices is readily obtained, but information about wholesale prices is very difficult to obtain. Discounts that are available off the TGP provided by oil companies are not declared and nobody really knows what supermarkets are buying at and what margins are available to supermarkets.

Independent owners' buying price is regularly above the supermarket discount price. At the bottom of deep discounting, independent owners are often paying more than the supermarket is offering at retail. Fuelwatch is unlikely to change that situation, so VACC is opposed to the regulation of prices in the retail fuel market that will handcuff retailers and will not introduce greater transparency to the wholesale supply of fuels. I will leave my remarks there. I should give Terry an opportunity to comment, then Gary, and we will just try to keep that to a few minutes.

Mr Conroy—I have a paper and I will hand out a copy of it to everybody. I will briefly go over the headings. The first one is that a large city environment is not appropriate for Fuelwatch. When we spoke to the then Fuelwatch and the current fuel commissioner about this, he gave us the impression that before people drove across town to pick up their fuel, they should be able to find the price on the Internet. It is a totally different situation when you are in a large city like Melbourne. I drive in from Mount Evelyn to the city every day. I know exactly which service stations have the prices. If one is at \$1.59, the next one down will be \$1.57 and the next one will be \$1.55. If I have enough, I will wait until I get there to try to save the boss a dollar.

But there is no way, if I knew it was a dollar a litre, would I drive across to Altona and spend another two and a half hours behind the wheel to do it, whereas in Perth, people who live there tell me you can not only drive across Perth from one outer metropolitan area to the other within half an hour, but you will be back in the office and have your coffee on the table when you are finished. That is a totally different environment, and I do not think it is appropriate.

The next thing is that we do not believe that retail transparency is the real issue. Many of our service station members have a price board out the front that is three metres by two metres high and it has the price emblazoned on it. The prices are available on all of the oil company websites. Shell has an excellent free service. If you look up any Shell site in any suburb, you will know that that is around the price that you will pay in that suburb because everybody else has to compete. There were issues about collusion for many years, but you do not have to collude. One of my staff members, who at the time did run a number of service stations, made the comment, 'I don't have to look for a price board. I've only got to look up from my office. If my forecourt is too empty for what it should be, I'm half a cent dearer. If it is too full to what I should be, I'm half a cent cheaper.'

They know exactly what is happening. They know the volumes they are pumping. They also know that when it is at the bottom of the market, they are selling fuel for less than they pay for it and they might retail, say, 10,000 litres in a day. When it goes up to the top of the market that same site may retail 1,000 litres a day. The public know when to buy their fuel, and they also know where to buy it.

So far as we are concerned, the real issue is the fact that there is no price transparency at the wholesale level. We have no idea. A question that one of my members asked was, 'How can I post a price at 2 o'clock in the afternoon when I have ordered the fuel but I am not really sure when it will arrive? If the fuel delivery arrives at five to midnight'—and you will notice that most of the deliveries are done overnight so that it is safer and there is less traffic, et cetera—'I will pay today's price, but if it arrives at five past 12 I will pay tomorrow's price, and tomorrow's price might be 2c different. How can I predict?'

That has happened on a number of occasions. With one particular oil company there are issues with capping and rebates and all that sort of stuff that can happen sometimes four or five days later. Back refunds on faulty deliveries, or whatever, can also take three, five or six days to rectify. So I do not think it is appropriate to suggest that we can predict the actual price at 2 o'clock in the afternoon on the day before. We have had so many inquiries about the price of petrol that it is ridiculous. The only thing that is still muddy is what happens at the wholesale level. We have members who supply fuel through fuel cards. When the rebates and everything else is done sometimes they sell it for less than they paid for it. It gets quite ridiculous.

Fuelwatch compliance is impractical because of the issues that I have just outlined. I say that it is impractical but I believe to a greater extent it is not achievable. We have looked at this for an awful long time. We have had a lot of issues. The state government in Victoria brought in a terminal gate price, which worked wonderfully for about six months until the oil companies worked out how to get around it. We would like to see a restructure of fuel pricing at the wholesale level. We have a suggestion that has been passed around to everybody—it is this paper that I have in my hand. The top section of that paper is just a print-off from the Shell website which outlines the various prices.

I will not bore you by going through all the detail, but we are saying that if this model, if you like, is applied, we would have a situation where the retail customer could well be buying below today's terminal gate price, but also up to 10 per cent below the top of the cycle price, that is, going on Melbourne's cycles. A lot of people have failed to understand that many service stations are selling fuel below their cost price when it is at the bottom of the market. If you bring in a price watch nobody will speculate; they will have to lift their prices. I cannot see the price going down from what it is now; I can only see it going up. I can then see the high scale coming down a little to balance it out.

I was very impressed with the Informed Sources reference to the Range Rover rebate. If we are seriously doing this for the people who cannot afford to buy fuel, why would we attempt to support those people who do not care what the price is? I ask you to look at that paper when you get a moment. More information is available on the 'Fuelwatch issues to be addressed' paper that I have handed out. Thank you for your time.

Mr Treloar—Good morning. I am the general manager of Ballarat Taxis. As part of our business we operate an independent fuel site. We are branded in Shell colours but we are totally independent; we do not receive any financial assistance from Shell. We compete with the Coles Express sites in Ballarat, who are constantly below our price, and quite often below our buying price. We cannot afford to discount; we have to make a profit, or at least make enough to continue operation out of our one site. We cannot prop it up from

sales on another site. We also do not have large volumes of shop sales to subsidise our fuel. Our shop sales are fairly moderately priced because we have a 24-hour supermarket only 100 metres down the street, so there is no opportunity to subsidise our fuel from shop sales.

I do not believe Fuelwatch will alter our position in pricing our fuel. We have a margin that we must add to cover our costs. Hopefully we can get a bit more out of that to make a profit for the cooperative. But we will certainly not go below that margin, no matter what the fuel prices are. The only thing that can alter our set price is if we can buy fuel cheaper. Currently, we buy at TGP plus, meaning freight, credit and the rest of it, so we are competing against the volume buyers that obviously buy at rates that are a lot cheaper than the rates at which we buy.

In conclusion, I do not see a future for single site operators such as us. In fact, I just finished an exercise to try to sublease our site to one of the major fuel suppliers and I was unsuccessful in doing so. We cannot just walk away from the site, as we have a substantial investment in it. However, I do not see any long-term future for an independent retailer.

Senator FURNER—This committee has been privy to a lot of information on Fuelwatch. Initially we started in Perth, in the state where it can be argued that it has been proven and tested. The third dot point on the first page of the documentation that you have provided today states:

The goal of assisting consumers with lower prices and providing more information is unlikely to be achieved.

That is contrary to our hearing in Perth where a certain comment was made. I am uncertain as to who made the comment but the Consumer Protection Commission in Perth gathered information and someone made the comment:

It was surprising to hear comment in the national media immediately following the Perth hearing that Fuelwatch lacked merit and should be discontinued in Western Australia.

After that the committee received a plethora of emails and I wish to refer to some of them which state:

In spite of niggardly media comments I believe the Fuelwatch service is invaluable.

Fuelwatch may not mean cheaper fuel in Western Australia but the process is certainly an enormous help in shopping around for the cheapest outlet in a given area.

I have found the system to be very beneficial in enabling me to get the best fuel price without wasting fuel driving from petrol station to petrol station or spending time and money on the telephone.

We are very satisfied with the Fuelwatch system in Western Australia as operated for the last four years and the department personnel who administrate its operation.

Finally, very simply:

Stick with issues that affect Tasmania and those that you have some competent knowledge about.

Obviously that comment was directed at someone from Tasmania. I found quite interesting one of the graphs handed to us on the day of the hearing in Perth. I will table that graph which has been provided to this committee and the senators that appeared on the day. Quite honestly, it clearly demonstrates that there are savings to be made under the FuelWatch system that has been implemented in Perth since 2001. You will see the fluctuation of different capitals, being the peaks and troughs in the other colours on that graph in comparison to Perth, which is a consistent and sustainable price. From evidence that has been provided to us today we are aware that, on average, between 2.4c and 4.2c per litre has been saved by consumers in Perth as a result of FuelWatch.

You came here today and indicated that people are able to drive past fuel lots to get some idea of the best place at which to buy fuel. You indicated that the public know where to buy the fuel and when to buy it. I challenge the comments that you made as we have evidence to the contrary. This proven and tested operation in Perth demonstrates that people are able to access information via the Internet, and it clearly indicates that this successful proposal is doing quite well in Western Australia.

Mr Russell—We do not deny any relevant information. Information for Melbourne, Sydney and other places in Australia is available through MotorMouth and other websites that provide the service that Fuelwatch is also intending to provide.

We do not see the necessity for that to be done in the eastern states. On the question of price, who knows where the price will go here as it is a completely different arrangement and market. It appears as though Perth has lower prices from time to time, but when you look at the bottom of the discounting in Melbourne and Sydney you find that it often dips below the Perth price.

Senator FURNER—Those are the fluctuations. That is one day in the peak of a week as opposed to an average arrangement where people are able to access cheaper fuel, on average, over a period—in this case in June 2008. Naturally, not everyone can go out and fill up their cars on a given day in a week, can they?

Mr Russell—A lot of people in Melbourne have got used to the cycle which provides cheaper petrol on a couple of days per week. I understand your point. You are saying that these graphs indicate that in Perth there is a more even spread of lower prices over time. We do not really know whether that will occur in Melbourne—and I am talking about Melbourne—in the future. That is unknown. As Gary Treloar said, prices will have to be set according to what he needs to earn in his business to remain viable as a small independent operator. We are speaking on the part of small independent operators. Perhaps you should ask the same question of supermarket operators. They might have a different view.

Senator FURNER—I believe we will have that opportunity shortly.

Mr Conroy—Might I just say something in relation to that? Page 7 of the Informed Sources submission refers to the daily average for unleaded fuel in the 12 months to 31 May 2008. Adelaide had the cheapest price, on average, at \$1.33. In the 24 months to 31 May, that is, the previous month, Adelaide again had the cheapest fuel at \$1.28. And for the previous 60 months Melbourne had the cheapest fuel on average at \$1.13. I do not know where those figures come from. Maybe we need to put up a whiteboard that states, ‘Vested interests.’

Senator FURNER—Those figures came from Ms Driscoll, the Commissioner for Consumer Protection in Western Australia.

Mr Conroy—Are those figures selective to prop up what they want to bring in, or are they independent? I do not know.

Senator FURNER—We are examining facts in a state where it has been proven that—

Mr Conroy—These are facts.

Senator FURNER—It has been proven that—

Mr Conroy—Rather than getting into an argument, can I just say that these facts have come from an independent business that has as its business the gathering of information, and it is doing that completely without bias.

Senator CAMERON—Is that Informed Sources?

Mr Conroy—Yes.

Mr Russell—That is the Informed Sources submission.

Senator CAMERON—With vested interests.

CHAIR—Let us not have any more debate; Senator Furner has the call.

Senator FURNER—I have finished.

Senator EGGLESTON—Mr Treloar, I was interested in what you said about pressure being put on independents and how you did not see a future for them. We heard evidence in Perth that the supermarkets now control 60 per cent of the market. We were told the same thing in New South Wales. There is a view by some that the stability of Perth prices has not been due to FuelWatch but due to the power of the independents in the market that entered it before FuelWatch was established. Have you heard that the supermarkets in Perth game play within the FuelWatch system?

They get a supermarket-controlled retail outlet in one of the six regions in Perth to put in a very low price at 2.00 pm. A very low price is posted and that gives the impression that, say, Coles or Woolworths supermarkets are selling petrol at a very low price but in fact only one of their outlets is doing it—the others are much higher. People then go along to a Woolworths or Coles petrol station thinking that they will get cheaper prices and that puts pressure on the independents. Have you heard about this? The independents do not have any capacity to vary their price to meet the supermarkets’ low set prices.

Mr Treloar—I am not familiar with that scenario. It has crossed my mind that that could happen within our Ballarat market. One particular chain, whether it is one of the larger independents with multi-sites or a supermarket, could post a lower price for that specific reason. The Ballarat market has been very aggressive over the past 12 months. Normally we are below the Melbourne price, and we also do not have a cycle. It is a pretty flat sort of market.

Senator EGGLESTON—From the evidence we have received that seems typical of country areas. The other thing you mentioned was the fact that you had a competitor who could sell petrol or fuel at a price much lower than your purchasing price. Last week Caltex in Sydney gave evidence to the effect that it sold fuel to Woolworths at a very favourable price, which I think tends to support your point of view that independents are being increasingly squeezed by the supermarkets. FuelWatch in Western Australia has facilitated the supermarkets driving the independents out of business. Would you care to comment on that?

Mr Treloar—I can imagine that being so. We have the same supplier as one of the major supermarkets, yet our buying price is quite often above their selling price, before their shopper docket discount.

Senator EGGLESTON—Even before the shopper docket discount?

Mr Treloar—Yes.

Senator EGGLESTON—That is remarkable. I say to Mr Conroy that Perth is like a long sausage. It is not very wide but it is about 120 kilometres long. It is about 30 kilometres wide and it goes a long way north-south, but it is not very wide east-west.

Senator ABETZ—Thank you, gentlemen. It is nice to hear from a Conroy who makes sense. From your point of view the wholesale price is ultimately the driver of the retail price. If the ACCC, or indeed anybody else, wanted to deal with the issue of petrol pricing and transparency, fiddling around at the retail end is not the answer; you have to do it at the wholesale end. Is that the basic thrust of your submission?

Mr Conroy—Yes. It is probably—

Senator ABETZ—As time is short—

Mr Conroy—In the first place it would be best to hear from Gary.

Senator ABETZ—Time is short. You said yes and that satisfies my question. Mr Treloar, you said earlier that you could not sublease your service station, which I find very interesting. That highlights to the committee the disingenuity of the ACCC and some others who told us that the percentage of independent outlets has increased. It has increased as a percentage of the total number of retail sites when, let us say, Ampol and Caltex amalgamate and knock out one in the town. However, independents cannot sell or sublease—Mr Treloar painted that picture for us—and many of them are stuck in the marketplace because they cannot necessarily sell. That was Mr Treloar's personal snapshot in Ballarat. Mr Russell, to your knowledge is that the experience of other independents? They have been at a site for a long time, they try to sell it but they cannot, and so they remain in the game with ever-diminishing margins?

Mr Russell—Yes, that is correct. Quite frankly, they get trapped, not just on the basis of what is happening in the market with petrol sales. The asset value of the site and all sorts of other things come into it. These days not a lot of people are willing to take on a business that is an independent fuel retailer. Let me go back to your point about the independents percentage of the total market. When supermarkets came in and took over all the Shell sites, for example, they created one operator.

Senator ABETZ—Yes.

Mr Russell—They created one Shell operator with more than 400 sites, so the percentages were altered by that.

Senator ABETZ—I understand that in Western Australia Mobil exited the market and a lot of the sites were then bought up by people who were at the site and that helped, artificially, to increase the number of independents. I wish to ask you about the graph to which my colleague referred earlier, that is, the ACCC graph that was provided to us. From your experience with your members, does the dark blue line on the graph depict the Perth price? If I am right, the light blue line depicts the Melbourne price, the yellow line depicts the Sydney price and the red line depicts the Adelaide price, which consistently go below the price in Perth.

Mr Conroy—It is not just going below; it is the volumes that are sold when it is below.

Senator ABETZ—That is the point that I have been making, somewhat laboriously, at these committee hearings. It is this very simple proposition that you might have two retailers in town—one selling at \$1 per litre and the other at 50c per litre. You could argue that the average price is 75c a litre, but if everybody is buying at the 50c a litre petrol station, the average price of petrol sold is 50c a litre and not 75c a litre. That is where price is not the indicator of consumer benefit but the volume shifted at a particular price. From your knowledge in Melbourne, is it correct to say that the majority of fuel is shifted or sold—if I can use that term—on the day that the price is the lowest?

Mr Conroy—Not on the day. In Melbourne the business is done on Monday, Tuesday and Wednesday morning.

Senator ABETZ—Allow me to correct myself. Does that occur on those days?

Mr Conroy—We have members who say, ‘I might as well go and play golf from Wednesday afternoon until Monday morning because nothing comes through.’ You have only to drive past any service station on your way home to see that they are not barren but very few cars are there. Those who are there are the ones who are not affected by price or who do not get a discount—fleet vehicles or people who financially do not need to buy at the bottom price.

Senator ABETZ—How do consumers in Melbourne find out about this without the \$20.9 million Fuelwatch that is being proposed?

Mr Conroy—That is exactly what we are saying—it is a complete waste of resources. They find out to the point where the other night a police car was parked across the Shell service station on the corner of Chappell Road and Dandenong Road to stop traffic from going out into the road and blocking the trams.

Senator ABETZ—Fuelwatch will stop that.

Mr Conroy—Definitely.

Senator CAMERON—I am interested in this argument that consumers have sufficient knowledge through the petrol board process.

Mr Conroy—That is one of the processes.

Senator CAMERON—I have not yet finished. I will use myself as an example. I drive on a regular basis from the lower Blue Mountains into the city of Sydney. I think there are a number of petrol stations in that process of travelling about 80 kilometres. If I go down the M4 and then onto the Great Western Highway, or I drive into the city and I look at the petrol price at Eastern Creek and say that I will compare it when I get to the top of the Great Western Highway and then when I get further down, how in heaven’s name would I ever get back if the cheapest petrol was at Eastern Creek?

Mr Conroy—Do you buy petrol only once?

Senator CAMERON—I am asking you the question.

Mr Conroy—How many times has it happened? You would drive past those service stations regularly so you would know which ones were retailing at a price lower than the others. That is what I explained to you. Every day I drive in and each night I go home I see where the prices are. I do not buy petrol every day; I buy it maybe once or twice a week. However, on my general route I have a very good understanding of who is selling what and where. If I wished to know when I was sitting in my office what was the price of fuel anywhere where there was a Shell service station, I would only have to look up Shell’s website.

The information is there all ready to go and it tells me the price at which Shell is selling its fuel. An independent may be 1c or 2c dearer. I have noticed of late that the Shell board price has been a couple of cents above our members’ prices, so the discount on the docket is only 2c. For example, when it was \$1.59c, at a number of the sites along the route that I travel home, Shell was \$1.61c. But that is not information that you have to find out once; that is information that a motorist will pick up as he or she travels. You do not go past enough service stations. I do not travel on a lot of freeways—I travel down main roads and there are—

Senator CAMERON—Some people do not have any option.

Mr Conroy—It is a free country; they can drive where they like.

CHAIR—I think we are getting into an unproductive debate.

Senator CAMERON—I have hardly said a word; it all came from the other side. I cannot help it if it has been unproductive. There is another loop that you can go around, which is Homebush. You could go into Homebush instead of going straight down the M4. The NRMA gave evidence to suggest that sometimes there are variations of 20c between stations in Sydney. If that variation is at Homebush and I am relying on the petrol boards, how would I ever access that 20c?

Mr Conroy—I cannot speak for Sydney, but that 20c in Melbourne would occur on a Wednesday afternoon. In the morning the price would have been at the bottom of the cycle and between 11.00 am and 2.00 pm it generally would have gone up to the top. In that period there would be a 20c variation. Everybody has to go up because when they are at the bottom of the market they are selling below their buy price. I wish to show

you something. The orange lines on this graph represent the prices that are below the TGP. The TGP is not the cost price; it is TGP plus delivery, branding, and a few other bits and pieces of up to 3c a litre.

The yellow line represents where the price is below their cost price. I would like to table that graph. I can send you electronic copies. These are figures that we take every day off the Internet. That enables us to keep track of what is happening in the marketplace. Senator, before you left home, you could fire up your computer if you wished, look at the Shell site, see what price it was buying for, and then buy your favourite brand in that vicinity. It would be so close to that price that it would not be funny.

Senator BUSHBY—Where did you get those prices?

Mr Conroy—It is in the paper that I have handed to you and you can find the prices at www.shell.com.au. Just follow the prompts and it will take you to the prices.

CHAIR—I thank members of the Victorian Automobile Chamber of Commerce for their evidence today.

Mr Conroy—Thank you.

[11.58 am]

DAVIDSON, Mr Brett Jonathan, Strategic Pricing Manager, BP Australia Pty Ltd

JACKMAN, Mr Gavin, Director, Government Affairs, BP Australia Pty Ltd

SALTER, Mr Dean James, Vice-President, Wholesale, Reseller and Retail, BP Australia Pty Ltd

CHAIR—Welcome. Do you have an opening statement?

Mr Jackman—I will commence with an opening statement. First, thank you for accepting our late submission and for the invitation to appear here today. Given the time constraints, I will not go into the background of our operations in Australia because that is in our submission. However, there are two points that I would like to make that are of importance to our evidence today. First, BP is involved in the petroleum industry right across the supply chain, from exploration to refining, to wholesale and to retail. While retail may be our most visible presence in the marketplace, many of our branded stores are small businesses to whom BP supplies fuel through various contracted arrangements.

Second, I would like to emphasise how the price of petrol is determined in Australia. Essentially, the price for which refined petroleum can be sold in Australia is determined by the international parity price, or the IPP. That is the price at which you can import product from the nearest port, that is, Singapore.

We cannot sell refined product for any more than that price, otherwise businesses would simply import their own product rather than buy it from BP. The IPP is determined by international refining margins plus, and I am speaking broadly here, the cost of shipping, port and insurance charges—an important point to understand. That is the background.

We have operated in Perth for many years before FuelWatch and since the introduction of FuelWatch. FuelWatch has not had any noticeable impact on the profitability of our business in Perth. We are not arguing against FuelWatch on the basis that it is bad for our profitability, but on the principle that any regulation of prices, that is, telling us when and how we may move our prices, should clearly be justified in the public's interest. We do not believe that this has occurred. Indeed, the decision to regulate prices is at odds with the finding of the ACCC, which stated:

The petroleum industry in Australia is fundamentally competitive.

In BP's view, competitive markets are best served by allowing the free movement of prices down as well as up. We believe that the restriction of that movement is bad for competition, which ultimately will be bad for consumers. I mentioned a public interest test. BP notes the reliance by government on the modelling done by the ACCC in making its decision to implement Fuelwatch. I am referring here to some comments made by the Prime Minister that that was the case. We believe that the modelling undertaken by the ACCC did not include a fundamentally important element of the price build-up, that is, the cost of shipping which, as I noted earlier, is an important determinant of the wholesale price, which then flows through to the retail price.

The cost of shipping is important in determining whether FuelWatch had an impact on prices in Perth relative to the east coast because shipping has a different impact on each of those markets. Most importantly, our observation is that the impact of Perth relative to the east coast has changed over time. In contrast, the ACCC analysis assumed that the landed price of refined petroleum was constant across Australia when that is not the case. In our submission we simply suggest that a further analysis should be commissioned by the government in order to ensure that there is sufficient justification in the public interest before we introduce such a fundamental restriction to the operation of what has been determined to be a fundamentally competitive market. In relation to the additional measures proposed to provide consumers with more information, we do not oppose those elements of FuelWatch.

We think a lot of information is available on retail price boards, Internet sites, radio, television, et cetera. However, improving the availability and the quality of information for consumers is fundamentally different from the proposition that we fix prices for 24 hours at a time. I wish to make two quick final observations. In our submission, and indeed in these remarks, I have referred to our ability to operate under the Fuelwatch system. While that is true it may not be true of our dealers and distributors, so we are not speaking on their behalf. We encourage this committee to go and seek the views of smaller operators who are subject to different pressures and operational models than those to which BP is subject.

In the event that the government proceeds to introduce a national Fuelwatch scheme, we have drawn out in our submission some concerns with the operability of that legislation as it stands. As you will appreciate, those

concerns are based on our operations in Perth under the FuelWatch scheme. To sum up, we agree with the ACCC's assessment that the petroleum industry is fundamentally competitive but, in the absence of compelling evidence of a public benefit, we do not support the introduction of a regulation to fix prices for 24 hours. We are concerned that freight has been ignored in the ACCC's analysis and we believe that this is an important component of the cost of petrol and essential to determining any cause of the changes in the price differential between Perth and the east coast. That is why we would like to see more analyses to be undertaken. Thank you.

Senator ABETZ—I will ask questions on the point on which you finished. The ACCC, in its report, said that there were certain important caveats on its findings. Can you confirm that the price of shipping refined petroleum product, or petroleum product from Singapore to Perth, has not increased as much as the price from Singapore to the eastern states?

Mr Jackman—That is our observation, yes.

Senator ABETZ—Your observation is that you have to pay the dollars?

Mr Jackman—That is right.

Senator ABETZ—That is your observation from your own practical experience as a company?

Mr Jackman—Yes.

Senator ABETZ—Are you able to share with us how much that has gone up in comparative terms to Perth?

Mr Jackman—I do not have the figures with me and I do not know whether Brett has them.

Mr Davidson—The figures do change as time goes by. Let us take the freight route between Singapore and the Perth market and the shipping route from Singapore to the east coast. As time goes by those routes are subject to their own supply and demand balances and their own impacts, and that has changed over time. At the moment it moves between 1c and 2c a litre, so it is a very significant consideration to be made. To that extent the relativity of those freight rates changes has to be an important consideration in analysing the impact of FuelWatch on the Perth market.

Senator ABETZ—You, as a company, are concerned about this and the possibility that the ACCC has not taken all the necessary factors into account. What analysis has BP done? Do you have any econometricians on board in BP to help you come to the conclusion that transport should have been included?

Mr Salter—This issue of freight is a statement of fact; it is not really a debate. We have the evidence here to support that. Referring to the question relating to analysis, we have done our own analysis on this. However, earlier this year we also commissioned an independent research firm to conduct an analysis of the impact of FuelWatch in Western Australia, relative to the east coast markets. That research was conducted by Access Economics, one of Australia's most respected econometric modelling and research agencies.

Senator ABETZ—I think at the moment they are even government preferred. Let me ask the \$64 question. Are you willing to make that econometric modelling available to us? This morning we had some debate about whether the ACCC's analysis was right. Professor Harding said that it was a bit dodgy. I think Professor Gans told us that it might be okay. It would be very helpful to the committee.

Mr Salter—Certainly. At the moment the report is commercial in confidence, but we are certainly happy to share it with the committee. Let me quote from the report, as it is quite important.

Senator ABETZ—Is this Access Economics?

Mr Salter—This is the report of Access Economics. There are various quotes in that report that I think are relevant to this whole debate. The ACCC noted in appendix S of its report:

For the impact from transport or port charges to be significant it would need to entail a significant change in the relativity between Perth and the other capitals, not simply a change in the level for Perth or a constant difference between Perth and the other capitals.

Access Economics' analysis strongly suggests that this is exactly the case and that relative changes in these prices are largely responsible for the impacts found by the ACCC.

Effectively, in other parts of the report when they summarise their conclusions they are clearly concluding that there has been no impact from FuelWatch on prices in the Western Australia market compared to the east coast. There are nil margins.

Senator ABETZ—Have you shared this with the ACCC?

Mr Jackman—We are talking to the ACCC at the moment. Essentially, we recognise that this is a hot political topic at the moment and we wanted to put in our submission, make our own observations—the point that Mr Salter outlined that the cost of freight has risen more for Sydney than it has for Perth. But we are talking to the ACCC to, if you like, sense check the work by Access Economics.

Senator ABETZ—Have you supplied this information to the ACCC on a commercial-in-confidence basis?

Mr Jackman—No.

Senator ABETZ—Unfortunately, there was not a skerrick or a hint of a suggestion by the ACCC that they had this extra modelling which might be questioning their modelling. They were adamant about its integrity and said that transport costs should not be included. If I recall correctly, I asked something about transport costs, as I did at the Senate estimates committee hearing on Fuelwatch.

Mr Salter—There was an important caveat in their analysis. We are very confident in these results and we are very confident in our own analysis. I think there is enough here to suggest that the ACCC, and indeed the government, conduct a further analysis on the impact of Fuelwatch on the Western Australia market relative to the east coast. If there is no public benefit in the introduction of fuel then I would ask: why are we doing it?

Mr Jackman—I wish to add to that. I would have been very disappointed if the ACCC had mentioned this analysis, given that we provided it to them on an in-confidence basis. We are continuing discussions which is why we did not incorporate it specifically into our submission. We have absolute confidence in the analysis and the data that have been provided, but it does not form part of our submission at the moment.

Senator ABETZ—I think that is a fair comment. Reflecting on it, the chances are that they could not have referred to the Access Economics analysis, or to the BP analysis. It was the adamant way in which they pursued their case, without the hint of anybody questioning it, which leaves me a bit cold. But that is only a comment. Allow me to go to your margins, or to the profits that you make in Western Australia. Basically, as I understand your submission at the bottom of page 3, there is no evidence that BP's business has suffered in comparison to when Fuelwatch was not in place. Is that a fair summary?

Mr Salter—It is a fair summary. Let us look at our margins over the last decade, effectively in the Western Australian market. Margins move around market by market on a regular basis.

Senator ABETZ—When you say 'market by market' what do you mean by that—the Perth market or the Adelaide market?

Mr Salter—We have a company operation. We run 260 sites directly ourselves. We operate in the Perth market, the Adelaide market, the Melbourne market and the Sydney and Brisbane markets.

Senator ABETZ—As somebody who sells petrol in these various areas, referring to the Perth market or to the Adelaide market is a well-understood term within the petrol industry?

Mr Salter—I think so.

Senator ABETZ—You might be interested to know that the ACCC had great difficulty with that this morning. However, once again, that is a comment. Your profitability in Western Australia overall has not been impacted by FuelWatch?

Mr Salter—No, compared to the east coast. We are looking at the relativity between the Western Australian and the east coast markets. That relativity has not changed in any significant way over that period. We would say that we had—

Senator ABETZ—You referred to relativity. Were you making a bigger margin in Western Australia before the introduction of FuelWatch?

Mr Salter—I would need to refer to the data. I do not believe so.

Senator ABETZ—I think Caltex is on the public record as saying that they get their biggest margin in Western Australia. Another fuel company indicated to me—not you guys, so it is narrowing down who it might be—that it makes its largest margin in Western Australia. It said that it is big and ugly enough to look after itself, FuelWatch or no FuelWatch. From your point of view, Fuelwatch will not impact on your margins and your profitability?

Mr Salter—It has not done that in Western Australia. We believe that we can operate successfully on the east coast under Fuelwatch. Our question would be: if there is no public benefit here, why do it?

Senator ABETZ—That is interesting. When I asked the department that runs Fuelwatch that question in the hearings in Western Australia, in its whole submission and the four concluding paragraphs there was no suggestion that the introduction of FuelWatch had reduced prices. I asked the department whether that was correct and Mr Rayner said, ‘That is correct’, or words to that effect. Even that department was not asserting that prices would come down. In fact, this morning the ACCC told us that there could not be an assertion that Fuelwatch would make prices come down. I think you astutely and diplomatically note in your submission that the government’s language has somewhat changed in relation to the arguments for Fuelwatch. If it were just a pricing mechanism, or it was advertising pricing, you would not be opposed to that.

Mr Salter—In a market that is being analysed comprehensively by the ACCC they have concluded themselves that it is fundamentally competitive after eight months of detailed analysis last year. I guess we would question what the benefit of that would be. To the extent that the motoring public want access to more information we have no problem in principle with providing it. Where we have an issue is providing that information and fixing prices for 24 hours. We do not believe that fixing prices for 24 hours necessarily delivers incremental benefit. The analysis reinforces that point. If people in Western Australia were benefiting from FuelWatch to the extent that some people would lead us believe, we would expect this analysis to show us clearly that a benefit has been delivered by FuelWatch to the Western Australian market. That is not the case.

CHAIR—Mr Salter, you are basing that on a pricing mechanism. In one sense you might say that the claim whether or not the price is up or down is irrelevant. The government is saying that it is introducing Fuelwatch in order to give consumers more information, and more stable information, so that when they drive past a petrol station in the morning they know they can drive back in the afternoon and get it for the price at which it was advertised in the morning. As Senator Furner outlined previously, it is very popular and well used in Western Australia. Would you not call that a public benefit?

Mr Salter—Let me just restate our position. We have no problem in principle with providing more access to information than is currently the case. I am saying that our analysis clearly shows that no benefit has been delivered in margins or prices in the Western Australian market as a result of FuelWatch compared to the east coast. We are happy to make that analysis available to you. Referring to access to information, in any given week 90 per cent of moves are downwards. In most markets there is one price in a given week that is upwards. So 90 per cent of price moves are in a downwards direction in the metropolitan markets in which we operate in this country.

More than half the fuel we sell is sold below the median price of fuel in a given week. Price-sensitive motorists, in particular, are attuned to the price cycle that exists in most markets—certainly the markets in which we operate—and they time their purchases to leverage that benefit. We would argue that, provided motorists have access to real-time pricing data—in principle we are supportive of doing that—they know where to find the lowest priced fuel. Ninety per cent of price moves are down. That, combined with the fact that people know when the lift generally occurs in most markets, gives them the same benefit that they would otherwise receive through Fuelwatch. We are supporting providing the motoring public with greater access to information. We do not believe that fixing prices for 24 hours provides any additional benefit.

CHAIR—We heard earlier from the Victorian Automotive Chamber of Commerce that there was such a safety hazard as a result of people queuing for cheap petrol on the one day that it became available they had to have police cars out to control traffic. That is not the best situation. If the cycle were smoothed out and people could buy at the time of the week that they chose would that not also be a public benefit?

Mr Salter—I think you will find that exactly the same problems occurs in Western Australia at the moment where we are currently operating under FuelWatch. We should not think that the introduction of Fuelwatch will avoid that issue. Motorists are increasingly price sensitive. Over recent months we have seen significant shifts in volumes and demands as prices have gone up, which reinforces the point that people here are very price sensitive. The motoring public are increasingly well informed as to what prices are doing and they time their purchases to leverage that benefit. I do not think that issue will change. The example that was given of police being called out to prevent an accident would be very rare. However, I take your point. On lift days, or on the day before lift days in markets, the lowest price sites are well patronised, relative to sites that have higher prices.

CHAIR—We have heard from many independent operators or their associations that independents suffer more than oil majors under a Fuelwatch scheme. What is your view?

Mr Salter—To be honest, it is difficult for us to comment. We are a retailer and a wholesaler. We supply a number of wholesale customers. I know that some of the wholesale customers we supply have their own reservations about Fuelwatch and they have made their own submissions.

The only thing I would say is that if you operate one site rather than a network of sites and if you are out of the market on that particular day you will feel a much more significant impact than we might feel operating 260 sites and getting it wrong on a few of them. I think that is a consideration. I think the data in Western Australia must be looked at to understand what has been the impact on independents. From my understanding this morning it has not been very significant. However, I certainly encourage the committee to take the views of independent dealers and distributor-supplied sites.

Mr Jackman—The second point of our argument today is that more work must be done. We are not sure whether we can rely on the ACCC analysis because of this key missing variable. We are arguing for another look.

CHAIR—As in cost variable, not in other variables? Because of that do you mistrust their entire data? Is that what you are saying?

Mr Jackman—I am not sure what the other information is. There was only one econometric analysis.

Mr Salter—The point is that the ACCC analysis declared a price saving in Western Australia under FuelWatch of 1.92c per litre. This analysis conflicts with that. This analysis states that other considerations that are totally relevant also need to be brought into this analysis. When they are brought into the analysis, Access Economics—one of Australia's most prominent and well-respected econometric modelling and research agencies—is saying, 'We do not see any benefit' which is consistent with our experience. I can talk about our experience in Western Australia and I have not seen the impact.

CHAIR—Is the government not also saying that price is only one part of the consideration?

Mr Salter—Absolutely. We have also said—and I will say it again—that in principle we are supportive of providing greater access to information than is currently the case. I am not sure whether that benefit delivers too much. The Western Australian population have had access to this information for the past seven years. This research clearly shows that no benefit has been delivered in margins or prices.

Mr Jackman—As our submission states, we see a fundamental difference between providing consumers with more information and then requiring retailers to fix prices for 24 hours. They are two separate propositions. We have no problem with the first. It is just that we believe the second does not facilitate the free operation of the market.

Senator CAMERON—It is a good time to come in when we are talking about the free operation of the petrol market. From the submissions that we have had, in reality the market does not operate freely. If the market operated freely retailers would have similar opportunities to set market prices, but that is not the case, is it? Retailers do not have the opportunity to set competitive prices.

Mr Salter—I think that is an assertion with which we would not necessarily agree.

Senator CAMERON—How would you respond to the evidence that we received from a witness this morning? He is an independent retailer and he cannot buy petrol. His buying price from the wholesaler is more than the retail selling price of the majors—the Woolworths and Coles supermarkets.

Mr Salter—Every day, in every market in which we operate, we compete with independents. We go head to head with independents, with supermarkets and with other major oil companies. It is a very competitive scenario. We note that many of those independents are still there today. That leads to me to believe that they have very sustainable businesses. We can get into arguments about access to imported product and wholesale prices, but the key point here is: does Fuelwatch deliver a public benefit? That is the key question.

Senator CAMERON—The question here—the question that I am asking and not the question that you want to ask—is: what effect does the wholesale price, and you are a wholesaler, have on competition? Can you supply this committee with details of the prices at which you supply wholesale petrol to the majors—to Coles and to Woolworths—compared to the wholesale price of petrol for private operators over a period?

Mr Davidson—The answer to that question is relatively easy. It is simply that BP does not provide fuel to Coles or Woolworths. Our wholesale sales are almost exclusively made at our contract terminal gate price. We can also provide you with data that goes back over a long period. BP, in our own retail operations—we are operating service stations ourselves and setting our own fuel prices, but that is only a small proportion of BP's branded outlets across Australia—sets our own retail prices. We are not retailing below our wholesale price.

Senator CAMERON—Can you also provide details of your profitability over the last three years, and also increases in executive salaries over the same period?

Mr Davidson—We would be happy to provide you with our annual reports.

Senator EGGLESTON—You talked earlier about the need for transparency, which is a good thing and the public should have it. It is reasonable for the public to have access to information about fuel prices. Is that not available through various RAC sites? In Western Australia it would be available from the RACWA, in Victoria it would be available through the RACV and in South Australia it would be available from the RAASA. You can go to a website and that information is already there.

Mr Salter—I believe that it is. However, I am not sure whether it is real time. Certainly that information is available. I think MotorMouth is a site that provides that sort of information.

Senator EGGLESTON—MotorMouth is a source, yes.

Mr Salter—I also know also that most major radio stations and early morning breakfast shows on television provide information on fuel prices. I think there already is a level of transparency. To the extent that the motoring public believe that a further benefit is available in having greater access to information, we certainly support that.

Mr Davidson—I wish to add something to that. I noted with interest when I was in the role of retail pricing manager that the Royal Automobile Association of South Australia started promoting a service that it had, but I could not get access to it because I was not a member of the Royal Automobile Association of South Australia.

Senator EGGLESTON—Apparently Shell also provides pricing data on its website so, in a way, that information is already available. To that extent it is unnecessary for the government to set up a very expensive system to provide the same data if existing websites could be made available to a wider spectrum of the public.

Mr Salter—Potentially that is true. I do not honestly know enough about what is available out there to know whether it is comparable with providing real-time pricing data across all sites in the country. But there certainly is a level of transparency, and organisations are certainly providing quite a lot of information.

CHAIR—Thank you for your evidence today, gentlemen.

Mr Jackman—I seek confirmation from you, Chair. If we are to provide the analysis that was requested earlier, it is commercial-in-confidence.

CHAIR—If you note that it is commercial-in-confidence the committee will take that into consideration.

Senator ABETZ—BP should be made aware that once it supplies that analysis to the committee it becomes the property of the committee and the Senate. As I understand it, potentially the Senate can then release it. You should be aware of that.

CHAIR—In response to that, in the past, whenever committees have released commercial-in-confidence information, that has been because it is no longer commercial in confidence after a certain date. As I understand it, there have been no occasions when committees have released evidence beyond that. If you send that material as commercial in confidence you can be fairly confident that, unless there is some overriding consideration, it will be maintained and treated in that way.

Mr Jackman—Thank you for clarifying that.

Proceedings suspended from 12.29 pm to 1.14 pm

ANDERSON, Mr Peter Joseph, Director, APCO Service Stations Pty Ltd

ANDERSON, Mr Robert Francis, Director, APCO Service Stations Pty Ltd

CAREW, Mr Damien, Franchisee, APCO Service Stations Pty Ltd

CHAIR—Welcome.

Mr Robert Anderson—I would like to pass on our appreciation for the opportunity to make representation here. Peter Anderson, a director of APCO, and Damien Carew, a representative of our franchise group have introduced themselves. Damien Carew has 18 years experience as a franchisee for APCO, operating two locations in Bendigo.

APCO, as an independent petrol convenience store retailer, has 30 years experience operating 19 stores throughout regional Victoria, and 17 of those 19 locations are franchise locations. APCO is recognised throughout regional Victoria as an independent petrol discounter and has acquired a reputation for providing everyday, lower and fairer prices in the regional townships where we are represented.

Within the metropolitan markets where we are represented, APCO has a pricing policy to be seen as the first to come down and the last to go up within the price cycle. It is APCO's view is that the Fuelwatch scheme will be detrimental to the long-term survival of independent discount retailers such as APCO. APCO has previously provided a written submission to the committee for review outlining our argument against Fuelwatch. We are sure the committee has already received similar argument put forward by other retailers.

In our submission we have tried to explain the price setting dynamics of an independent retailer that is fighting to survive against the larger organisations—the major oil companies and, of course, the supermarket alliances. We have tried to describe how Fuelwatch will restrict the independents' ability to have any true influence on the market as we believe we do today.

The first key point of our submission is that the 24-hour price change rule removes the flexibility to lower fuel prices. In our 30 years of experience in this market it is typically the independent retailer that actually drops fuel prices at the pump, which drives competition. Fuelwatch removes any incentive for the independent retailer to drop prices and offers no reward to the company that might create further competition by dropping fuel prices at the pump against competitors.

As a consequence of the 24-hour price set rule, the independent discounter is adversely affected if they get the price wrong and spend the day uncompetitive for the next 24-hour period. There would be no reward for APCO as a fuel discounter to drop prices under Fuelwatch if we do not always have the choice and the flexibility to either match or drop below our competitors.

Fuelwatch has the potential to destroy APCO's goodwill and reputation, which we have built up over a long period of time, as a discount fuel retailer because we can no longer guarantee our customers that we are going to have the most competitive prices in town. Customers will switch brands in an instant to the cheapest prices if we are not the cheapest. Of course, that will result in loss of fuel sales for APCO Service Stations, less foot traffic into our stores and, of course, reduce gross profits and margins.

The losses in fuel sales and shop revenue we believe would have to be offset by the independent discounter by increasing our retail margins, most likely retail margins in fuel and also in shop goods. Most particularly of concern, regional Victorian fuel prices would increase due to the lack of incentive for an independent like us to drop prices and a lack of competitive spirit amongst independent retailers that are struggling to establish a long-term competitive advantage and a discount reputation.

Of even more serious concern to APCO is that the Fuelwatch scheme will increase the market control of the supermarket duopoly with their discount dockets at the expense of the independent retailers. The supermarket discount dockets are already predatory on small business in our opinion, and on small businesses of all kind in all sectors, and have caused the demise of a large proportion of the independent fuel sector. Fuelwatch would most definitely increase the discount dockets' market advantage with the 24-hour price set rule.

The independent fuel retailer and the independent grocery retail chains cannot compete with the duopoly supermarket discount dockets of 4c, 6c and 8c. It is commonplace in the market now to get up to 20c per litre discount with your docket. Supermarket discount dockets are doing nothing to excite competition on both groceries and fuel. Discount dockets are only distorting what the consumer or customer is actually paying for their products. It is pushing up the fuel prices at the pump, in our belief, and it is certainly pushing up grocery prices on the shelves.

The shopper docket system should be banned to allow for true transparent competition. It is only then that you will achieve improved competition between the supermarkets at the grocery shelves. You will also find that fuel prices at the pump and the board prices might come down quite substantially, because the fuel price at the top end of the price cycle will no longer have to subsidise the fuel discount dockets in the market.

Furthermore, imagine the consequences under Fuelwatch for the independent fuel retailer when they predict the fuel price wrongly and find themselves uncompetitive on the board prices for up to 24 hours and uncompetitive with the supermarket board price perhaps by one or two cents. Still on top of that, the supermarket has a 4c per litre discount over and above the board price advantage. In this scenario, and it will probably happen frequently—we are not always going to get it right; probably only 50 per cent of the time—it is going to be devastating for small discount retailers within the market. Certainly, APCO franchisees will be severely damaged and disadvantaged with a likely decline in fuel sales volume and foot traffic, of course, which will lead to a decline in shop revenue.

APCO cannot emphasise enough in our submission how serious the situation is and how serious this Fuelwatch situation is for the long-term survival and success of our franchisees and, really, to all independent retailers. Under the current competitive price cycle, APCO can now reasonably compete against the discount docket as we adopt a pricing policy to narrow the price gap between the perceived value of the discount docket and our actual board price. We use that to our advantage consistently across the market.

If you remove that ability for us to continually drop our prices under supermarket board prices to close that gap of the perceived value of the shopper docket, it will only strengthen the supermarket discount docket and the power and influence that that docket will have in the marketplace, further impacting on what little independent market retailers who exist in the market today. Fuelwatch will shift more market share across to the major oil company and supermarket alliances.

The Fuelwatch system plays it in the hands of the larger centrally controlled organisations. The system works against the independent smaller retailers. We say this because it will in effect—and there is a lot of argument to suggest this—it will stabilise the fuel price with the 24-hour price rule, which is far better for the major oil companies and the larger centrally controlled organisations. It creates a price levelling effect that will provide more control over the market to these companies, which in turn will lead to a higher margin. That would have to be at the cost of the motorist.

Majors will no longer need to closely monitor APCO's and other independents' fuel price—by the hour sometimes. The larger centrally controlled organisations need surveillance people, regional people, sending in the independents' prices because they do not have this information currently. In effect, this Fuelwatch scheme could help reduce costs to the major oil companies because they will not need to employ personnel and resources to monitor the APCO independents' prices. Fuelwatch sends our prices into the central corporate office of the oil companies on a silver platter. We cannot see how that will help an independent operator survive when we do not subscribe to companies like Fuelwatch. We have never wanted to give our prices to any of the companies that post it because it is our confidential information to help us drive competition and maintain a loyal customer base.

One wonders how the independent operator will survive with a system like this. Fuelwatch will be expensive for the smaller independent retailer to implement and maintain, particularly the system compliance. It will impose financial and administrative burdens on the small retailer and it will likely mean that APCO will have to adopt a new pricing policy and system. We will have to employ additional staff to be able to run the system seven days a week, making a decision predicting 13 different markets over each 24-hour period.

Mr Peter Anderson—I want to highlight that particularly a lot more. Because we have to sit down on a weekend and make that decision. With respect to the people sitting at the other end of the table, you will be able to go to the family barbecue, but I will have to go to the office on Saturday and do it. I will have to go there on Sunday and do it, or I will have to employ someone, which will cost my business more. The unfortunate thing is that we have heard your Assistant Treasurer Mr Bowen saying that he cannot understand the cost of making a phone call or downloading the information in an email to him.

Who does the assessment? The unfortunate thing is that Mr Bowen has had the opportunity to talk to me and I have sent him a letter and I am still waiting to hear from him. I think that is pretty rude and pretty arrogant of the Assistant Treasurer. It is extremely disappointing. That letter was sent in April. By the way, we have still heard nothing from anyone in the Labor Party on the situation. I have had consultations with two others and I heard nothing. It is extremely disappointing. This is our livelihood on the line that you want to deliver up on a silver platter to the oil companies.

Mr Robert Anderson—I will make a couple of other points. This refers to a schedule that we put in our submission on some price movements. We believe what this data presents—

Senator ABETZ—On what page of your submission is that schedule?

Mr Robert Anderson—It was attached as an appendix on the back of this submission, so it will be on the final pages.

Senator ABETZ—It is schedule A.

Mr Robert Anderson—Schedule A, is it?

Senator ABETZ—Yes.

Mr Robert Anderson—Thank you. We believe it is going to affect the cost conscious. This Fuelwatch system will affect the cost-conscious consumer. In fact, it will disadvantage them. The information we have seen on the Fuelwatch system to date is only focused on the average board price. We think what is more important is when they actually buy on the price cycle and at what price. We have some analysis here. I will not go into detail, but it shows a typical month of prices from a high-profile location in Geelong. The conclusion of that is—and it is important to note that Geelong prices follow Melbourne prices—

CHAIR—We have only half an hour, and I am sure people would like to ask questions. You may like to hear from some of the Labor members of the committee perhaps.

Mr Robert Anderson—I would love to finish this point that 68.5 per cent of consumers were purchasing fuel in the lower half of the price cycle. That data is presented there. Of those 68.5 per cent of the cost conscious customers who did purchase fuel on the lower half of the price cycle, they purchased up to 2.3c below the average board price in Geelong. That is essentially important. The other schedule C that we have, which I would like to point out to the committee, makes some comparisons of the Geelong board prices to the information provided through Informed Sources, which is released in a newsletter from HEH. We make comparisons over a 28-month period and Geelong prices were actually cheaper. We were on average 1.26c a litre cheaper over that 28-month period versus the Perth figure at 126.1c a litre. That is not taking into account the considerable debate this morning in relation to the shipping differential. With that, I am more than happy to hand back to the Chair and take questions.

Senator ABETZ—The table you have provided at schedule A is very informative and instructive. You made the point that if you just do a comparison of the price on the board, the average price on board does not actually tell you the average price per litre sold.

Mr Robert Anderson—Absolutely.

Senator ABETZ—That is why a volume assessment of the petrol market needs to be undertaken as to when people buy now. How do the two-thirds—sometimes even more—of the people who buy petrol at APCO at Waurin Ponds know that you are selling petrol cheaper without the benefit of a \$20.9 million Fuelwatch?

Mr Robert Anderson—They do not need to know it; they have been educated over a long period of time by watching the price board and knowing it is cheap Tuesday and cheap Wednesday morning.

Senator ABETZ—The submission you make suggests that you are not part of Informed Sources.

Mr Peter Anderson—Correct; we do not get that information.

Senator ABETZ—If there were to be a Fuelwatch system in place then your competitors would become aware of the price you are going to sell at, albeit that will be at the same time that you find out the price at which they will be selling.

Mr Peter Anderson—That is correct. At the present moment they have to get in their vehicle and go for a drive. They do not have the same incentive that we have or our franchisees have to be competitive on the board and go out. They are managed by company operations et cetera. There is not the drive that we have.

Senator ABETZ—I would imagine Geelong has a lot of other petrol retailers.

Mr Peter Anderson—Correct. Yes, they are all there.

Senator ABETZ—They are all there. Because the legislation does have a provision in it that certain areas might be exempted from Fuelwatch depending on the locality et cetera and the Minister will make that determination. But what you are telling me is that all the major players are in Geelong, including you guys. So it would be very unlikely that Geelong would be excised from the Fuelwatch system.

Mr Robert Anderson—Absolutely. In other markets—Ballarat, Bendigo, Warrnambool, Wangaratta, where we are located—all the major companies are represented there as well. So I doubt that any would be excluded.

Senator ABETZ—Without giving away too much of your commercial information, what percentage of your profit in rough terms comes discretely comes from the sale of fuel as opposed to the profit you make from the sales in the shop attached to the petrol outlet?

Mr Peter Anderson—We get a royalty from our franchisees which is 10 per cent of their turnover.

Senator ABETZ—All right. I should probably ask the franchisee then how much they rely. For example, we were give evidence from the Service Station Association—Mr Craig Glasby—and I think in rough terms his evidence was that overwhelmingly the majority of his turnover was in petrol sales and that that represented only about 30 per cent of his profit, whereas 70 per cent, which is a lot lower total turnover, of his profits came from the shop. If he could not hold out the billboard a competitive petrol price as against the majors, he would not be able to get the flow through into his shop where he makes his profit. Would that be the same sort of impact that APCO franchisees would face?

Mr Carew—Exactly, Senator. Between my two sites, I turn over approximately \$26 million a year. Of that, \$4 million is shop and \$22 million is fuel. Fuel represents about 21 per cent of my bottom line profit.

Senator ABETZ—Right.

Mr Carew—The fuel is used as a drawcard. I have a very, very low margin on that. But without that turnover, without that volume of traffic coming in, I cannot generate my shop sales, which is where I actually make my money.

Senator ABETZ—Of course, the majors would be able to set lower prices for potentially a month in Geelong, which you would need to match, possibly, or not be able to match. I imagine that that would do untold damage to APCO because other than your—how many sites—

Mr Peter Anderson—19.

Senator ABETZ—19 sites, you cannot really cross-subsidise from other areas to help boost your profitability during the times of price war.

Mr Robert Anderson—That is right, exactly. The Fuelwatch scheme could potentially allow the larger organisations—and I have heard it here this morning and this afternoon—to manipulate the market quite effectively. They could actually do what we call smart marketing and be very aggressive in certain markets where they know that they may impact particular independent retailers who could be an aggressive retailer and, of course, make margins elsewhere across their network. As it has been described, getting foot traffic into our shops is essential. It is an essential ingredient of APCO's pricing policy. It allows the foot traffic in the stores that our franchisees depend on to make gross profit.

We do take a 10 per cent royalty out of the shop sales. So that certainly is cream on the pudding for us. Our net return on our business year-to-date March was 1.1c per litre for fuel. We do not think our profits are that unreasonable in terms of the investment we have in the business. Out of our total gross profit for the business, it would be fair to say that probably there is a fifty-fifty per cent split in regard to gross profit to fuel and to our additional income that we get from shop sales, car washes and additional services on the site.

Senator ABETZ—As I understand the shopper docket system, that can be changed at any time of the day. For example, if you were to set the lowest price in Geelong and Shell down the road was 3c or 4c a litre higher, they could just put out a sign saying, 'Present your shopper docket today and get a discount' of however many cents to drop them below you.

Mr Robert Anderson—Exactly.

Senator ABETZ—But you do not operate a shopper docket system, so you cannot play it back against the majors.

Mr Robert Anderson—Independents cannot afford to match 4c, 6c or 8c. We simply cannot afford to do that. If we could, we would not be here today.

Senator ABETZ—So the majors, especially those that operate a shopper docket, as in Coles Shell and Caltex Woolworths—and I assume they operate in Geelong—

Mr Carew—Yes.

Senator ABETZ—are able to a certain extent to get around the Fuelwatch system with their shopper docket system, something which is not available to you.

Mr Carew—And we do not have the option to match their price.

Mr Peter Anderson—Can I add one more thing while your are talking about cost?

Senator ABETZ—Yes.

Mr Peter Anderson—Yesterday it would have been cheaper for me to take the fuel tanker down to the Safeway service station and give in a 4c a litre docket, fill it up and get 50,000 litres. It would be cheaper.

Senator BUSHBY—You mentioned that APCO has an acquired reputation amongst your 19 sites. How do you remain competitive in respect of your edge on the market amongst those 19?

Mr Peter Anderson—Our franchisees, during the course of running their business during the day, go to the bank. Damien has two sites in Bendigo, so he travels between them. He observes what the market is doing. He informs me on the mobile phone or wherever I may be and I make a decision as to what we will do with the price. If he finds someone that is the same price as us, we will make a decision to go down. He also—as does every other franchisee—faxes in price information twice daily to our sites. We sit down and quickly analyse what those prices are and make a decision. On a weekend, I make that decision on the run wherever I may be, whatever I may be doing.

Senator FURNER—Surely you would only go to the bank once a day in your travels to examine those prices?

Mr Carew—If I could answer that. I check the prices in the morning on my way to work and if I am out and about during the day. I also look at price checking, because I have a financial benefit—the more volume I sell the more money I make. I look at price checking as another job that I do throughout the day. It is no different from sweeping the floor or stacking the fridge. That is what makes my business competitive. If that means I have to get out and check the price then I will do that.

Mr Peter Anderson—We also have two of our own fuel tankers on the road with mobile phones. They consistently phone cheaper prices into me when they see them.

Senator FURNER—I take you to two newspaper articles, firstly the Canberra Times dated 30 May 2007, where APCO was one of 16 parties that was fined a total of \$23.3 million by the ACCC for price colluding and fixing prices in Ballarat in 1999 and 2000, which was subsequently overturned by the full bench.

Senator ABETZ—Exactly.

Senator FURNER—Yes, I am making that point. Subsequently that was overturned by the Full Bench resulting in overturning fines of \$3.2 million. I found that interesting because I just asked specifically how you gathered your information. I struggle to understand how you would gauge the full impact of prices across the board on a day or over a few days by merely travelling to and from work, going to the bank or relying on fuel tankers that you have on the road with mobile phones to get that information.

Peter Anderson, you indicated also to the ACCC that in your view they were merely pursuing a vendetta against you and you called for an inquiry into the ACCC as a result. Surely that is just an axe grinding as a result of having to face the ACCC after being initially fined for price colluding in your industry?

Mr Peter Anderson—Can I just answer that?

CHAIR—The question is continuing.

Mr Robert Anderson—I thought he had finish the question.

Senator FURNER—No.

Mr Robert Anderson—It sounds like he has.

CHAIR—Excuse me, Mr Anderson, I think I am the chair of the meeting, and I will make those decisions. Can we just let Senator Furner finish, please? You had a long time to answer your question and I gave Peter Anderson extra time to answer his. So I will chair this meeting, thank you.

Senator FURNER—Forgive me for being—

Mr Robert Anderson—No, you are right.

Senator FURNER—suspicious in terms of your vendetta, as you have stated, toward the ACCC and the flavour in which you have directed your feelings in general about this Fuelwatch proposal for this bill. I would like to hear your comments on that.

Mr Peter Anderson—The situation between us and the ACCC has nothing to do with Fuelwatch. Fuelwatch is a completely separate subject. What I called for, and the reason I called for a government inquiry, is when you are called into a 155 and you have false and misleading information put in front of you when you are under oath and you have to answer it and I asked a question and I said what are the majors on? Mr Anderson, you are the first one to put your price up. I was under oath.

Senator ABETZ—What is a 155?

Mr Peter Anderson—I go along to a 155 and I must answer all questions under oath and that—

Senator EGGLESTON—That is under section 155 of the Trade Practices Act?

Mr Peter Anderson—Correct. I was in there under oath and they put misleading information in front of me. It is clearly in the transcript; it came up during court trials of the Geelong case. I came out and I was fuming after finding that information at 10 o'clock one night in the office afterwards. They told me that I had led the price up in Geelong when in fact I had not led the price up. They had the information of the oil companies and they withheld it. In other words, I am under oath and if I lie I can be prosecuted, but they can lie to me while I am under oath.

Senator FURNER—We are not in court discussing—

Mr Peter Anderson—You asked the question.

Senator FURNER—No, we are not in a court discussing the operations of the ACCC—

Mr Peter Anderson—It is still extremely arrogant.

Senator FURNER—or other jurisdictions where people are under oath—

CHAIR—Order, please! Senator Furner.

Senator FURNER—have the opportunity to deliver information, and if answered incorrectly are able to be prosecuted. I take it that you do understand the ACCC's petrol report recommendation on page 230, that the conduct that you were initially prosecuted for and subsequently appealed upon would make that contact illegal and it captured that under section 45 of the Trade Practices Act. I take it you do not have an issue with that type of requirement being proposed to be contained in respect of that sort of—

Mr Peter Anderson—I am trying to understand your question there. This is the report we are talking about.

Senator FURNER—It is the report on the ACCC's findings in *Petrol: further econometric analysis undertaken by ACCC*, at page 230. I am not asking you to go to that part. All I am asking is whether you have an issue with that type of behaviour being illegal.

Mr Peter Anderson—I will have to take that on notice.

Mr Carew—Excuse me, Senator. I think we have missed your question. I think your question was relating to your statement earlier that you do not grasp or believe that Peter is getting information from franchisees driving around. Is that correct?

Senator FURNER—No, I said I struggle to find how you would be able to be fully across the board in engaging the pricing. You made the comment about travelling to and from work—that is two journeys—travelling to the bank once a day and two tankers on the road, which I take it are not necessarily travelling around the whole area, they are naturally pumping petrol at various parts of the day. I question how you would be across the board on gathering appropriate information to support your statement about the acquired reputation amongst your 19 sites as price leaders.

Mr Carew—May I answer that from a franchisees' point of view? I am a franchisee. As part of a component of our business, when I say I check it on my way to work, on my way to work I drive around the 17 other sites in Bendigo and I write the price down. When I go out through the course of the day, I will go out and do the 17 sites. If I think there is a movement in the price—and after you have been in the industry for some time, as I am sure is true in all industries, you get a feel for what is happening—I will write down the price for those 17 sites. Each time I will forward that information to Peter. That is part of our edit as franchisees. So he would be getting that information not just from me on my two sites but also from the 17 other sites in our group.

I am checking the price sometimes four or five times a day, because sometimes I will change the price two and three times a day. I changed it last night at 6.00 pm and I changed it again this morning at 5.45 am It is very active. I have a financial reason to monitor that price because every time I can increase my volume, I make more money. So I have a very vested interest in ensuring that market information is correct.

Senator FURNER—I take it you do not have any issue with consumers having the same ability to monitor pricing, regardless of the means, by accessing Internet information or whatever the case might be to ensure they are best placed to be able to get the best possible price in their vehicle on any one given day?

Mr Peter Anderson—We do not have a problem with that. What we have a problem with is that our information is given up to an oil company on a plate, like Informed Sources at the present moment. You only have to sit there next to a computer and you can see it. We do not have the opportunity during the course of the day to actually ambush Coles and Woolworths by closing the gap on that 2c a litre docket. They will immediately know what our price is if it is put on a website—crunch, straightaway they have that information.

Senator FURNER—As you will know their price.

Mr Peter Anderson—Yes, they will know our price. That is what we do not want. We are able to ambush those companies because they do not have the same drive. They have a manager in a service station managing it; they do not have the drive that Damien has, that I have. I have to rely on that foot traffic to come through. What is going to happen if we do not have that drive? We will become margin takers, as we heard here today from Graeme Samuel, like a lot of other smaller independents have done. They have done it because they cannot compete. The customer going past their shop has a 4c a litre docket. We cannot compete with that. We cannot; they cannot.

CHAIR—Thank you for your evidence here today.

Senator FIELDING—Can I ask a question?

CHAIR—Very quickly.

Senator FIELDING—The ACCC were here earlier today and I have asked them to look at your submission and to come back with some points. I would like your response to a comment. The concern is about the independent being squeezed out under Fuelwatch. That is the question that I think we need some answer to. Some comments have been made about the market share of some independents increasing under FuelWatch in Western Australia. Do you have any comment about that statement?

Mr Peter Anderson—It is very interesting that the ACCC makes that comment because during FuelWatch Mobil got out of the market in Western Australia and United went in. United is an independent and took it over 16 service stations. I am disappointed that the ACCC has not provided that further information. The same as—

Senator FURNER—They are not the only one that has made that submission today.

CHAIR—We are running very short of time. Can we quickly get through this, please?

Senator FIELDING—Can we have his answer?

Mr Peter Anderson—You are looking at an increase of the independents in the market of 16 per cent and as much and as low as 6 per cent. United has taken over 16 sites. They are a very aggressive marketer and there is no doubt about their volume. So with the 6 per cent increase, what are we talking about? It is very questionable, I believe.

Mr Robert Anderson—United is a larger organisation. They are a larger independent.

CHAIR—That is the last question. Thank you for giving evidence.

[1.48 pm]

CUMMING, Mr David James, Manager, Government and Corporate Relations, Royal Automobile Club of Victoria

CHAIR—Welcome, Mr Cumming. Would you like to make an opening statement?

Mr Cumming—Yes, I would.

CHAIR—Please go ahead.

Mr Cumming—Thank you. The committee has obviously heard a lot of evidence previously around Australia and I have read most of that, so I do not want to reiterate everything you have heard before. The RACV has 1.8 million Victorian members, most of whom are motorists. We are very heavily involved in advocacy in relation to all policy issues in Victoria, particularly on transport and mobility. So we believe we know this market extremely well—the Melbourne market and the Victorian market. You have heard there are different markets around Australia. This one operates totally differently to the other capital cities. We believe we understand this market and it is for that reason—because we believe our members understand the system we currently have. I have described our system as being imperfect but understandable. Our members know when to fill up.

We do have a price cycle and I will impose upon you another graph. I am sure you have had heaps of graphs. I will show you what has been happening in Melbourne compared with Perth. Our members fully understand that cycle. We do not particularly like the cycle, but we do like the fact that we get cheaper prices on Monday, Tuesday and Wednesday each week. That is when our members fill up. You have heard the statistics: 65 per cent—I believe it is probably even higher from individual oil companies—or more people fill up on a Tuesday or Wednesday than they do any other day of the week. It is irrelevant to us what happens on Wednesday afternoons and Thursdays.

But having said that, we do not believe that Fuelwatch in its current form will be an improvement on the current system. We would not like to see it introduced in its current format. We are not here to bury Fuelwatch. We were the first automobile club in Victoria to push for pricing transparency. With assistance from others, we managed to get terminal gate pricing brought into this city, which was voluntary and it was then extended to other States. We were the first auto club to put petrol pricing data on our website, which is live in that it is updated twice daily. You can tell the prices and the cheapest areas to fill up in Melbourne. We already provide that data, but we would love it to be enhanced. We really would support Fuelwatch being introduced without the 24-hour rule.

Like APCO and others, we are very concerned about the future of independents. You cannot just take a system that operates in 300 service stations in Perth and say, ‘Here, we will put it in 800 service stations in Melbourne and the Mornington Peninsula and it will work.’ It will not work because we are much larger, we have two refineries and far more competition. It is far more aggressive here. We have three oil company head offices here and one supermarket head office. We seem to be a bit more aggressive.

We believe the 24-hour rule is the problem. We would like to see Fuelwatch introduced for all fuels, not just pick and choose one. You have to deal with the whole lot—all your premium products, diesel, LPG and unleaded. It has to come in with total and utter transparency. We totally support that. But the 24-hour rule will not work. It will only lead to higher prices. That I can guarantee you. I believe it will drive independents out of the market.

We would like to recommend to the committee, by all means bring in Fuelwatch, but make some amendments whereby you have to report your price the day before. It is then on the website and you do not have a problem about what happens the next day. You are not allowed to take that price any higher, but you have the right to take it down. That means our members can look at that website and know that that service station’s price will be at that level or lower when they get there. Whether it is live or just done a couple of times a day, we are not overall fussed about. But we believe we could enhance and improve Fuelwatch. That is what we would like to see the Senate recommend for your legislation. Thank you.

CHAIR—Thank you, Mr Cumming. You were saying that you do not want to drive the independents out. Why do you say that Fuelwatch will drive independents out?

Mr Cumming—What if they get it wrong? If they do get it wrong they are frozen out of the market for 24 hours. I can almost guarantee that oil majors or the supermarket chains will work out a way to make life

extremely difficult for them. Believe me, this is a pretty tough and aggressive market over here. They will do anything to make that the market eventually gets cleaned out, and what is left over will probably be controlled by purely the supermarket brands.

I think we all have to worry about how far they have moved so rapidly into the market. I do not believe we can unscramble the omelette. We cannot get rid of the 4c shopper dockets. Unfortunately, whilst it is a big con, the public have embraced it and everyone is using it. It is one of the biggest cons of all times. For them to apparently give a 4c discount in country Victoria is an absolute disgrace when all the supermarket chains have a policy of only matching the lowest price in town.

CHAIR—The independents have given evidence to this committee that one of the things that impacted on them greatly were the changes to the oil code and sites acts, which changed the way that service stations could be sited. The Service Station Association at that time opposed it, but you publicly supported the changes made by Peter Costello and John Moore at the time.

Mr Cumming—That is the sites and franchise acts?

CHAIR—Yes.

Mr Cumming—Most definitely. We are more than happy to see that go. We do not believe more regulation is better for this industry. We believe it should be deregulated and let the market decide.

CHAIR—But the independents at the time opposed it and have said since that it has been one of the factors that has driven them out of the market. Yet, here you are concerned about the independents in this instance.

Mr Cumming—We are on this occasion, most definitely.

CHAIR—But not on all occasions?

Mr Cumming—In relation to the Sites and Franchise Acts, both of those pieces of legislation were old and the oil companies had run so far ahead of the legators that they were quite irrelevant. They moved to multi-site franchising. The world had moved way beyond that legislation, which came in in 1980. As I said to Costello at the time, ‘You either update it or you get rid of it.’

CHAIR—It has been updated and the independents claim that it has harmed their businesses. If the Melbourne market is so competitive and there such good prices, Fuelwatch claims that they will give that information to consumers so that it is easier for them to pick the most competitive service stations. They will be able to work out the night before or in the morning which service station they can go to to get the most competitive price and they know that they can get it all day, they do not have to queue up in the morning or at any other time.

Mr Cumming—Why would you not allow them to discount on that day? As you say, we totally agree the website is there and that is the price, but—

CHAIR—But then the consumer will not know which is the cheapest price because there will be others that are going down. We heard evidence in Perth from the consumer protection people that that would completely negate the effect of FuelWatch because everyone would just start at a high price and discount down.

Mr Cumming—As we pointed out in our submission, if the ACCC and the RACV do not have enough knowledge to know what the market should be doing and someone is acting way above what the market would normally do in this State then we should be naming and shaming them. If the ACCC and the RACV do not have the ability to do that on behalf of our members, I would most amazed. I do not believe they would go to a very bad level, but I can say to you that since the supermarket chains have moved into this State the pricing behaviour has changed and pretty disgracefully. We now no longer go up 10c a litre, we go up 14c because they build their 4c discount into their upper board level. So there have been subtle changes to the market.

CHAIR—Will Fuelwatch not mean that all motorists will know that now? Your body in Western Australia supports FuelWatch, as do an overwhelming number of consumers in Western Australia.

Mr Cumming—That is their call. As you know, all the auto clubs have decided to go their own way on this one because of the fact that we all have different markets and they operate in different ways. We are acting in what we believe is the best interests of our members.

Senator EGGLESTON—One of the things that was mentioned or queried then was the impact of the supermarkets on the independents and competition. In Western Australia, one of the things the supermarket stations do is post a price in each of the regions which is very low. The independents then post a price which may be higher than that but because of the 24-hour rule they do not have the capacity to drop their price to

meet the price of the supermarket stations. That is one impact. The other one is that in fact around 60 per cent of service stations in Western Australia are now supermarket controlled, which gives them enormous volume control. Would you agree that through those sorts of mechanisms the independents' position is made more difficult?

Mr Cumming—Yes, we agree it would be made more difficult. We are concerned about the future of the independents in this State. You just had APCO on. The reason why we want to see APCO survive is because they are mainly in country Victoria. They are helping country consumers bring their prices down. There are very few independents in country Victoria. We would really hate to see these guys leave the market because they are very concerned that eventually the supermarket chains will control the price of fuel, and that means the price will be continually higher.

Senator EGGLESTON—In Western Australia we also heard evidence from Peter Fitzpatrick of the Motor Trader Association, who had just been to Germany where he said there were virtually no independents, and most petrol stations were controlled by supermarkets. Can you envisage a situation like that occurring in Australia?

Mr Cumming—Yes, I can. There is no doubt in my mind that the future of Mobil in this country is not guaranteed. You have seen the way they have pulled out of Perth. They are also pulling out of country Victoria. They are downsizing. As long as they have Bass Strait they may be here. There are rumours that they want to sell their Altona refinery. I know that one major independent chain in the La Trobe Valley has recently changed hands. I think we have heard United's name mentioned before. I think United is doing an extremely good job in this State because it is selling taxpayer-subsidised ethanol fuel. How long can that go on?

Senator EGGLESTON—You post prices on your website. How many hits a day do you have on that site?

Mr Cumming—I asked my computer people before I got here today, but they did not come back to me with a figure. But it was running in the many thousands when it first started. It has been there for many, many years. We do think it is a very useful service. We are about to improve it and start putting country pricing data on it. That is something we have been wanting to do for several years. We are happy to continue to do that until such time as another system comes into place. We will be more than happy to run that data on our website. We just believe the more information we can provide to our members the better, but definitely not the 24-hour rule.

Senator EGGLESTON—Will you take on notice the number of hits per day and provide it to the committee?

Mr Cumming—I will get back to you with that.

Senator ABETZ—In relation to your experience, Mr Cumming, how long have you been with the RACV?

Mr Cumming—I have been with the RACV for 13 years. Prior to that I spent 10 years in the Australian oil industry, including two years at the Australian Institute of Petroleum.

Senator ABETZ—So you have a pretty good understanding of the petroleum market in Melbourne at least?

Mr Cumming—Without a doubt. For the past 24 years I have been following it extremely closely and have been the fuel spokesperson for the RACV for probably all of those 13 years.

Senator ABETZ—In your opening statement you referred to 'this market'. I assume you are referring to the Melbourne market?

Mr Cumming—The Melbourne market.

Senator ABETZ—That is a commonly used term by people such as you to describe to what takes place—the 'Melbourne market', the 'Adelaide market' and the 'Perth market'?

Mr Cumming—Without a doubt. I presume it goes back to my oil industry days, but that has always been the term. I can tell you now about some of the markets, but I am not an expert in all of them. But Melbourne is a valley and that makes this market totally different from Sydney, which is divided by a bridge and one side is dearer than the other. It is just amazing how each market differs across this nation. I know you have been to Queensland and that is another bizarre state of things as well.

Senator ABETZ—Some witnesses earlier today had difficulty with the term 'market'. But it is interesting how many witnesses actually use that term. Can you recall whether the oil code was abolished with the support of the Australian Labor Party?

Mr Cumming—I do not honestly remember.

Senator ABETZ—You do not? All right, that is fair enough. Let us move on. I know what the fact is, but I am not giving the evidence. You have indicated on page 5 of your submission that you believe that it is clear that the overwhelming consensus is that Fuelwatch in its currently form will not deliver cheaper fuel prices to Australia. Are you aware that the ACCC conceded basically as much this morning?

Mr Cumming—No, I was not, but I am very pleased to hear it.

Senator ABETZ—I move on to attachment one of your city comparisons where you detail different markets and from 1 August 2007 to 29 August 2007. Would I be reading the graph correctly if I were to say that during the week 15 August to 22 August 2007, the orange line, which represents the Adelaide market, was consistently below the blue line, which represents the Perth market, other than for what I assume might have been about half a day or something?

Mr Cumming—Most definitely. Unfortunately I do not have the coloured one, but I do know the graph quite well.

Senator ABETZ—Yes. Given the variation in the prices, even between those cities that do not have Fuelwatch—so you can track the various lines—it would indicate that there are separate factors at play in those various capital city markets determining the retail price?

Mr Cumming—Without a doubt. As I said, each market is very different. That is reflected in these graphs. Even the snapshot is now totally different.

Senator ABETZ—The one-size-fits-all approach of Fuelwatch is not something that you could then seek to superimpose on all those variable markets having exactly the same impact on all those markets. It would stand to reason that Fuelwatch would impact differently in those various markets.

Mr Cumming—I am totally of the belief that if Fuelwatch were in today and we looked at the graph in three months, every market would have a different shaped graph.

Senator ABETZ—Thank you very much.

Senator FIELDING—Reference was made to a chart earlier. I will show that to you. It was a chart applied from a inquiry, I think it was in Western Australia. I have not been able to get it in front of me, but I think that chart is similar to your charts. Is it just the time frame that is shorter? That was used this morning as showing that prices were—the chart in front of is the one that is from 1 June 2008.

Mr Cumming—Yes, and it keeps going on down. Yes. I think that is very similar. Where is this graph from?

Senator FURNER—It is from the Department of Consumer and Employment Protection in WA. It was provided in the hearings.

Senator EGGLESTON—Is it 2008 or is it a 2007 one?

Senator FIELDING—Correct. So I was just looking at your chart, attachment 2, Mr Cumming.

Mr Cumming—Yes.

Senator FIELDING—I assume it marries up with that chart there, does it? I am just trying to make sure the data is right and make sure that we are comparing apples with apples.

Senator FURNER—Yes.

Senator FIELDING—You have an attachment 2.

Mr Cumming—Yes.]

Senator FIELDING—A comparison of unleaded fuel price Melbourne-Perth. I am just trying to work it out. Can you help? I mean, you have provided your graph, attachment 2. I think you mentioned something about attachment 2—that there was a change or a transition.

Mr Cumming—Yes.

Senator FIELDING—And, quite clearly, on your chart, it seems to marry up.

Mr Cumming—I think so too.

Senator FIELDING—I do not think it looks any different.

Mr Cumming—I think it does.

Senator FIELDING—It is just that this is a shorter time period, but there seems to be a change around 9 June 2008.

Mr Cumming—Can you talk me through the attachments. There is a big gap between attachment 1 and attachment 2. Perth went from a fortnightly price cycle and that was when we first started this submission. We were very concerned about the fact that we were moving to a fortnightly price cycle because we wanted Melbournians to have a weekly price cycle. Now it appears the price cycle in Perth is dead, and has been for quite some time.

That has got to be a concern to this committee. What if you introduce something into Melbourne and all you do is cause total and utter confusion to the bulk of the population who fill up their cars on Monday, Tuesday, Wednesday and, all of a sudden, they cannot get cheap fuel? The oil companies have changed their pricing behaviour in Perth, without a doubt, and I do not know the reasoning behind it. The cynic in me says they are trying to keep prices low in Perth in order to bring FuelWatch to the rest of Australia because there is no doubt FuelWatch is good for the oil companies.

Senator FIELDING—Yes. Just with attachment 2, there seems to be a month there where prices in Perth seem to be well below Melbourne and then you have the reverse happening the month before. Is that right? Can you go through that for me?

Mr Cumming—You will see from the new graph I have just given the committee we had a weekly price cycle in Melbourne, and then it just disappeared. It disappeared for a fairly lengthy period, which in itself did cause confusion to our members. But of course we could not complain because we knew the price was well down, close to terminal gate. That is roughly the same time that the pricing behaviour changed in Perth. Now, obviously we then got back into our price cycle, but I am still very concerned about the highness of our graphs.

CHAIR—Was it too long?

Mr Cumming—Without a doubt they have been going up much higher than they used to. So there has been a change of behaviour, not just in Perth but also in Melbourne. The point is if FuelWatch comes in across the nation, what is the next graph going to look like? What sort of confusion are we going to create for the motorist? Let us give them as much information as possible, but let us not manipulate the market whereby competition is not the driving force.

Senator FIELDING—I am interested to know that the NRMA has a different view than you have on this issue. I do not need you to speak for them, but you have heard their arguments. What is wrong with their arguments?

Mr Cumming—Once again, we are talking on behalf of the Melbourne market.

Senator FIELDING—I understand that and what you are saying, but you just cannot sort of say it is Melbourne and Sydney is different. I mean, come on! I mean, you know—

Mr Cumming—Look, I believe the inner and outer ones should explain their position.

Senator FIELDING—But you have read their arguments. I am just trying to work out how you counter their arguments.

Mr Cumming—To be quite honest, I have only seen what they have had in the media. Their submission did not have a vast amount of statistical data in it for me to come to any conclusion.

Senator FIELDING—Fair enough.

Mr Cumming—We are basing purely our understanding of the Melbourne market and what we believe our members understand. We just do not want to see something come in that will cause confusion and anger.

Senator FURNER—I am trying to establish why there are differences between the Perth equivalent of the RAC and the NRMA and how that would differ. You have indicated that you do not want to see it come into Melbourne because of anger. The evidence that we have been provided today—and, once again, we can only rely upon evidence where it has been tested by the Department of Consumer and Employment Protection in WA—and I will just go through the years with you. In 2004, out of 297 respondents, 7 per cent indicated their satisfaction with FuelWatch, In 2005, there was 70 per cent satisfaction with FuelWatch. In 2006, 65 per cent. In 2007, 65 per cent. So I do not know where you come from in suggesting there is going to be anger and confusion as a result of the introduction of FuelWatch when already in a capital where it has been proved and tested, people are overwhelmingly satisfied with the operation of that type of arrangement.

Mr Cumming—Senator, I think you have to understand that Victoria and Melbourne and Melbournians are extremely sensitive to fuel issues. It is one of the major areas of talkback radio and TV news. Petrol gets a huge amount of publicity over here, probably unlike what goes on in Perth. They have had that system in place for seven years and I am not surprised people have got used to it. But the ACCC report, in its own attachments, clearly shows that 60 per cent of Perth motorists fill up on the four dearest days of the week.

Do you really think the RACV should be supporting something whereby our motorists fill up on the four dearest days of the week because they do not know when the cheapest day of the week will be? Why not just improve on the existing system? Just because it has been in place for seven years does not mean it is perfect. Let us improve on it.

Senator FURNER—That is consumers indicating that they are satisfied with it—overwhelmingly, once again, indicating their satisfaction with it.

Mr Cumming—Once again—

Senator FURNER—You would think that if there was dissatisfaction, it would be the other way around, would you not?

Mr Cumming—You would think so, and maybe they just think differently to what Victorians think. But I can tell you right now, this is a very hot issue over here, far hotter than I think you appreciate.

Senator FURNER—I do not come from Perth. I come from Brisbane. It is a hot issue up there as well. People want to see sustainability of prices.

Mr Cumming—It has the cheapest fuel in Australia, Brisbane. Why should you complain?

Senator FURNER—It has been demonstrated in Perth.

Mr Cumming—That is fine for them, but you have to realise that when I sit down and deal with the Western Australian Royal Automobile Club and we try to discuss things like uniform road rules or something, it is very hard for us to come to agreement because they are different. They tell us they are different over there. They have different views. What is wrong with that?

Senator FURNER—Maybe Senator Eggleston can explain that.

Senator EGGLESTON—I will give you an example. In the north west, they want unlimited speed, no speed limits, on country roads.

CHAIR—I am sure they do.

Mr Cumming—Senator, that is why we need the RACV on the road.

Senator BUSHBY—I was interested in your comments about how you had noted that the Perth cycle had flattened out in recent times. We had evidence from other witnesses from across the country that, under FuelWatch, it is likely to flatten out. From some of the witnesses' perspectives, that is an advantage. Even the government sells that as an advantage to an extent because of the lack of interday volatility, et cetera, which is something that is good for consumers from their perspective. We have evidence also from a retailer in Adelaide that he is looking forward to the flattening out of the cycle because it means that he can have more consistent, fatter margins. Do you think if that was one of the consequences that came out of Fuelwatch, it would be good for consumers in Victoria?

Mr Cumming—Looking at Perth prices, yes, I would not mind having them in Melbourne at the present moment, but there is no guarantee, based on the last few years history of FuelWatch over there that this is a long-term trend. You just do not know when these guys are going to start fiddling with the market again. You do not know why they are doing this. I have tried to inquire and they all keep saying, 'We don't know,' but there could be a deliberate ploy here to put somebody out of business. You just do not know what they are up to. There is no guarantee this would be replicated in Melbourne if FuelWatch came in in its existing format—none whatsoever.

As I said, 300 service stations over there, but 800 over here. The starting point is a far larger amount of time and effort is going to have to be put in by these people just to get their prices out there, and then there are the manipulations they will go through. I guarantee you if FuelWatch came in, in its existing format, they will find ways around it.

Senator BUSHBY—Do you think that the docket system is a way that you get around it?

Mr Cumming—You will have to put a board out the front, ‘Come inside and say your name’s Joe and we will give you 0.4c off.’ There are so many ways around this scheme. It is a bit more aggressive over here when it comes to retailing.

Senator ABETZ—That is even easier. I had not thought of that one.

CHAIR—Thank you, Mr Cumming, for coming in this afternoon.

Proceedings suspended from 2.14 pm to 2.29 pm

GANS, Professor Joshua, Private capacity

CHAIR—Welcome, Professor Gans. Do you have an opening statement you wish to make?

Prof. Gans—No. My views are reflected pretty well in my submission. I am in favour of evidence based policy formation. I do believe that the current proposed Fuelwatch scheme is best viewed as a work in progress and that we should leave room open for it to be tweaked, reformed drastically, or what have you, as we learn more. That is basically it.

CHAIR—You point particularly to a couple of areas where, in your view, we need to ensure that Fuelwatch operates as it is intended to. I am particularly interested in your views about maintaining the price for 24 hours. Can you elaborate a bit on that and whether it might be improved in some way, or what would be the critical factors there?

Prof. Gans—I guess the main regulatory burden is the 24 hour price fix, for want of a better term. That is not unprecedented in our economy. The entire wholesale electricity market operates on fixing the price for a given period of time, so it is not that unusual. Basically it has been adopted because that was what was done in WA, but current information technology and other things like that mean that we could potentially relax that. In effect, what this fixing is going to do is require the petrol stations to think differently about how they approach each and every day, and how they approach the stock they have on the day relative to their expected demand.

That will involve some learning. In Western Australia that learning has already taken place, but elsewhere it will require that. But there may arise situations in which time of day adjustments are appropriate and should be permitted and will be in the interests of consumers as well. For that reason at some time in the future the government might want to consider reducing the fixed time component—I was thinking even all the way down to an hour—or I can imagine schemes that are more elaborate whereby you do not need to have it at all. But that requires a whole different monitoring process than the government is currently envisaging.

CHAIR—What particular elements should we be looking for that might indicate that there would be a cause for varying that 24-hour period?

Prof. Gans—One of the difficulties associated with the national roll-out of Fuelwatch is actually it is going to be very difficult to detect those things. We will only be able to compare Fuelwatch with what has been in the past, if we can compare that at all; if we even have the data available for that. From my perspective, I would be in favour, particularly in areas where Fuelwatch is not going to be rolled out, of experimenting with different models and seeing what their effects would be.

CHAIR—Experimenting on a smaller market, you are saying?

Prof. Gans—A smaller market and probably it could be a suburb or it could be a regional area or something like that, and for a period of time going for something other than a 24 hour pricing scheme. While it might impose some issues for the market concerned, it is that sort of experimentation that is the only way we are going to get to a better outcome if it exists. It will be hard to see otherwise. That is one of the issues associated with the national roll-out. If private people were thinking of those innovations, this is going to stifle it to some degree.

CHAIR—Are there any other particular areas of the proposed Fuelwatch scheme that you think might need monitoring more carefully, and can you see areas where we can look at the data in particular?

Prof. Gans—Most critical is how we think about getting the data to consumers. In other areas of government there have been data collecting exercises. I said in the *Age* just a few days ago that the contractual arrangements or other things that are hidden in the background from those can shackle innovation. For instance, we have a national toilet map, which is a wonderfully useful thing, except that in order to access it, you have to be at a computer somewhere. Let us face it, when you are out and about, that is a bit of an issue. At the moment we do not have a means of allowing entrepreneurs to take that data and repackage it in some form so that it is useful for consumers. With all the Fuelwatch infrastructure being built and the 24 hours and stuff, I say as a caveat that we have not seen how it is going to work. It would be nice if this could be drawn out and built upon.

In Western Australia we have seen a few examples of this, but not systematically. It would be beholden on the government to be very proactive in the form in which it provides that data to enable entrepreneurs to give it to people on mobile phones, or to put it up on a little screen at the nearest petrol stations here, or what have you. If someone wants to put up a billboard, that is just fine as well. That is an element that is under-

appreciated across the whole of government. But Fuelwatch is the opportunity to show the rest of the government how that is done.

Senator ABETZ—One of the themes you have struck on is quite interesting. As I travel around Australia and indeed my home state of Tasmania, one of the services that service stations provide is toilets. Many a time on the toilet door there is a sign that says that you can use the toilet only if you are a paying customer at the service station. That is one of the factors and costs that service stations provide that I dare say Fuelwatch and the ACCC's econometric modelling did not take into account! But let us move on to a different area. In relation to the electricity generator market, the price is fixed. Is that for 30 minutes?

Prof. Gans—Absolutely. The price—I am trying to recall it—is fixed for 30 minutes.

Senator ABETZ—Right.

Prof. Gans—Yes, but the bids can come in every five minutes. They do a settlement on a 30-minute basis, I recall.

Senator ABETZ—So if you say Fuelwatch, there is a precedent for setting a price. Thirty minutes is a lot shorter a window, is it not, than 24 hours.

Prof. Gans—That is correct.

Senator ABETZ—Thank you for that. I note in your submission, for which I should have started by thanking you, you made reference to a joint article between yourself and Dr King. I understand, or we now know, that Dr King is one and the same as the Dr King at the ACCC and that you and he—

Prof. Gans—He is not the author.

Senator ABETZ—Sorry?

Prof. Gans—He is not the author Stephen King, no.

Senator ABETZ—Right. Thank you for that.

Prof. Gans—Just to clear it up.

Senator ABETZ—Thank you for that. He is the Dr Stephen King of ACCC fame, albeit, given the number of pieces that you have written, you possibly could qualify as authors because you have written a lot of papers together.

Prof. Gans—Right.

Senator ABETZ—For which I congratulate you. Dr King told us over about a period of a decade you and he have been collaborating.

Prof. Gans—Yes.

Senator ABETZ—Can I ask the question: have you spoken to him about your submission here today?

Prof. Gans—I have spoken to him about it, yes. One of the reasons is I made submissions very similar to it to the petrol inquiry of the ACCC. It is interesting that you refer to the paper that is footnoted there, which was of course written prior to his joining the ACCC. That was a paper, or one part of it and some of the flow-ons of it, that was very critical of the ACCC both then and now over its examination of the shopper docket arrangements with petrol stations. Obviously I continued that voice. You join the government, and you cannot do that anymore.

But, you know, I have had many an altercation with Stephen's superior there at the ACCC on that shopper docket issue. It faded a bit into the background from what we anticipated, but it was one where you have had a situation where the economic analysis tells me one thing and, regardless of where people I have worked with happen to be later on, I have still got to maintain the criticism going on. So it is interesting you point that one out.

Senator ABETZ—So you and he have had an ongoing relationship for a decade, being an academic and collaboration relationship, and you have spoken with him about your submission today. We also understand that your student, who I dare say is a seriously bright individual, Richard Hayes, will have his doctorate conferred upon him this coming Saturday. Is that right?

Prof. Gans—No, he has already had it conferred upon him.

Senator ABETZ—He has already had it conferred upon him?

Prof. Gans—Yes. Richard is a fine student—possibly one of the finest students I have ever encountered. He worked as my research assistant for econometric issues for many years. I even hazard comment on the teacher and student role because he has taught me a lot over the years in terms of carefulness in econometric work and what you can draw from the data. I hold him in the highest regard. I am very happy that the ACCC has seen fit to hire someone of that technical prowess.

Senator ABETZ—Like with Stephen King, you are in fairly regular contact with Richard as well?

Prof. Gans—Sadly not as much these days. He is way too busy for some of the interactions. I guess he is busier than a commissioner at the ACCC in terms of dealing with petrol price inquiries and grocery price inquiries and so on.

Senator ABETZ—Has he discussed the econometric modelling of the ACCC with you?

Prof. Gans—No. I only have gleaned stuff on that from the relevant appendix in the report. Of course I recognise that as applying methods that are very similar to the methods applied by Richard in a submission that I ended up making to the Reserve Bank on interchange fees. That was one where the Reserve Bank was purporting for many years of their halving of a key price led to changes in the credit card market, and yet that same modelling that looks for those sorts of breaks or instances revealed there was nothing to be seen. Interest rate changes all have effects, but the Reserve Bank, with a massive intervention in the market, did not have it.

I note that the ACCC and the Reserve Bank are very different in their appreciation of econometric evidence. The Reserve Bank did not put forward any of their own evidence or choose to comment on it, and just ploughed on regardless. At least the ACCC seemed to take it into account.

Senator ABETZ—You have seen the ACCC's modelling. It has been referred to as appendix S.

Prof. Gans—Yes.

Senator ABETZ—Have you discussed that with Stephen King at all or Richard Hayes?

Prof. Gans—The econometric modelling? No, I have not.

Senator ABETZ—All right. But you have said that what is modelling—

Prof. Gans—Actually, I preface one thing. I did make a request to the ACCC for their data that they used for this, so I have been in contact with them regarding that because there is a very accomplished academic who is a junior person at the University of Sydney who I know has for years been wanting to do a detailed examination of petrol prices in Australia and has been unable to secure the data. So I asked on his behalf.

Senator ABETZ—To whom did you make that request?

Prof. Gans—To whom did I make that request? I believe it was probably Joe Dimasi of the ACCC I probably made the request to.

Senator ABETZ—Well, you would remember, would you not?

Prof. Gans—No, because actually I was told very quickly that they did not indeed have the authority to give the data because it was not owned by them.

Senator ABETZ—And of course that is one of the difficulties, is it not—that we cannot replicate that modelling independently.

Prof. Gans—Of course we could, with substitute numbers.

Senator ABETZ—I am sorry, we can—

Prof. Gans—Yes.

Senator ABETZ—But for the fact it is not out there in the marketplace for various people to analyse separately.

Prof. Gans—It would take a competent econometrician a matter of hours, given the detail in which the ACCC has laid out its methodology, to replicate their results, if they had access to the same data.

Senator ABETZ—Now see, who would be some of the better econometric analysts in Australia? Would you say Access Economics would be classified?

Prof. Gans—No. I am biased in this regard. I tend to favour academic economists for this sort of work. You know, the sorts of techniques that Richard Hayes brought to bear in his dissertation and now at the ACCC are leading edge. Our consulting firms are not always quite at it. But there are several people within Australia who

are competition and econometric experts in that regard, and they would be more than adequately able to do that.

Senator ABETZ—Yes. But Access Economics, if they had concerns about the modelling for certain factors not being taken into account, would that be a matter that would concern you?

Prof. Gans—I am interested in all concerns that are raised about the modelling. Again, what I like to see, and this is just a matter of transparency, is access to the data that is as open as possible so that anybody, Access Economics or anybody else—probably not me; I do not regard myself as competent enough to analyse it myself and would not pretend to—could look at that and then you would engage in academic debate, conferences, critiques and what have you, to bring out the best or the true answer.

Senator ABETZ—Professor Don Harding would be seen as somebody who has some expertise in econometric analysis?

Prof. Gans—Yes, he would be.

Senator ABETZ—Yes. Right. Thank you.

Prof. Gans—It is interesting that you mention him because he of course sent me his work and I have looked at it and I have some quibbles with it. He was very encouraging to me of the idea of having an open academic debate where many independent researchers could analyse the data. I said I would be happy to be part of a conference and things like that, provided everybody could get access to the data. He made a request of Informed Sources for that. I believe, forget about to me but to other people who are appropriate in the field, that it was refused, which is a real pity.

Senator ABETZ—Yes.

Prof. Gans—It makes it very hard for us to come down and say, you know, ‘Well, Don’s done his work correctly’ and so on, ‘and we can rely on it’, because it undermines his independence not to allow his work to be independently checked.

Senator ABETZ—But of course exactly the same applies to the ACCC, does it not?

Prof. Gans—Exactly the same. We want that sort of thing. We want that to occur. In fact, poor Don, as I understand it, he was not able to get the data initially either, but he came up with a very clever method that I guess not everybody has—

Senator ABETZ—Yes, he told us about it.

Prof. Gans—of pulling it out. And then of course he was given the data by Informed Sources.

Senator ABETZ—Yes. Thank you for that. In relation to the analysis of the price of petrol, would you agree that the volume of petrol sold at a particular price on a particular day is a very important consideration in our discussions? It is not only average price because the average price per day may in fact be higher than the average price per litre sold, if you sell greater volumes at cheaper prices.

Prof. Gans—There are a myriad of things that are relevant that were not taken into account in the average prices that were given to the ACCC. What we really want is we want to have, by petrol outlet, their series of prices going back as far as we can have it, their brand names of who they are, what they were doing at different times of day, even examining questions such as with the petrol outlets, how often they change prices during the day, you know, which is clearly relevant to 24 hours. This data, as I understand it, was not part of what the ACCC had to work with, which is entirely—

Senator ABETZ—Do you think that is vitally important to have that sort of data?

Prof. Gans—What I would prefer to do—and of course this takes much more time to analyse—would have been to do that. I mean, that is exactly the sort of data that I would love to see Informed Sources provide so that people could do an even more sophisticated analysis than the ACCC. So that includes volume data, it includes shopper dockets, maybe if there is a possibility of looking at the introduction of, not just toilets, but more convenience stores near these things. These are of very important consideration in this regard.

The problem that we face is that we can always say, with regard to anything to do with economic analysis, that we are constrained by whatever data we happen to gather and get given, which is exactly the issue I talked about before in terms of tweaking the system later on. So we can always find ourselves wanting for more. That said, in a lot of areas of government we do not even see the analysis of a particular case as we saw here feeding into policy. Contrast it, say, with the government’s new GROCERYchoice site; that is coming out of

nowhere relative to Fuelwatch. Fuelwatch has a basis, has an entire state, that gave itself over to an experiment.

Senator ABETZ—The government is prepared for worse, I think—Fuelwatch to grocery watch. But one final question from me is: in your submission to us you say that drivers have imperfect information regarding which petrol outlets have the cheapest price at any given time. Of course, I would agree with you on that, but would you agree that consumers—instead of drivers we say consumers—have imperfect information regarding the price of bread, coffee, rentals, every other good or service that a consumer may wish to purchase and that, in the Australian economy, nobody has perfect knowledge?

Prof. Gans—That is not necessarily the case. With regard to petrol, people have pretty much given up trying to work out what petrol price they are going to end up paying, but with regard to coffee, my closest coffee outlet is \$2.20, down the road 100 metres away \$2.90, across the other way also \$2.90, around the corner \$3.10. Do you know why I know that? The prices stay the same. There is a big difference between petrol and all these other things. In fact, the closest analogy to petrol is damned interest rates, which keep changing all the time, because we do not have what they have in the United States—the 30-year fixed interest loan. That is where I would be looking. But petrol is different because it is changing all the time.

Senator ABETZ—If your concern is prices changing all the time, you would agree with me that the stock market would be guilty of that as well. Prices vary by the hour, by the minute.

Prof. Gans—Right.

Senator ABETZ—You would also agree with me that if you have surfed the net for airfares that if you were to ask, for example, on Webjet or something, the price of a seat, you can ask at midday and it might be cheaper than if you ask at four o'clock in the afternoon, and then it will be cheaper again if you ask at 8 pm.

Prof. Gans—But there is something you get with airline prices that we do not get with petrol and that is I can log onto the Net and I can log on to Tiger, Qantas, Virgin and get quotes from all of them, and pick the cheapest, right then and there. Now, it may be cheaper later on in the afternoon or in two months time or what have you, but at right then and then I can compare these guys and work out what the cheapest flight is for me. I cannot do that right now with petrol.

Senator ABETZ—Yes, but the price varies during the course of the day, does it not?

Prof. Gans—They could.

Senator ABETZ—Does that apply to all airlines, like the little regional airlines? Because the case study of box 1 that you have tells us:

So what does this require of the petrol stations? First, they have to upload their prices (something they are doing anyway).

Prof. Gans—Yes.

Senator ABETZ—Can I tell you that they are not doing that. They are not part of Informed Sources.

Prof. Gans—Right.

Senator ABETZ—There are many independents that are not part of Informed Sources and they change their prices in response to the number of cars they have on the apron.

Prof. Gans—Right.

Senator ABETZ—They realise, 'We are not getting the number of cars; undoubtedly we are a bit high on the price,' and they change their billboard.

Prof. Gans—Yes.

Senator ABETZ—And, of course, fixing the price is going to stop the independents from being able to adjust their price.

Prof. Gans—I know, and I must admit if you had said to me the government was going to roll out this scheme and we had no experience anywhere in this country with a similar scheme, I would be very sceptical about that. But what the analysis that the ACCC has presented shows, and even the analysis of others like Don Harding suggest, is that at the very least the possibility of this doing harm is not there. I can be confident of that. There might be a benefit of a few cents a litre; who knows? It might actually be, because of the way econometrics work, more of a benefit than the ACCC is stating. It is a random variable.

Senator ABETZ—And less benefit?

Prof. Gans—It could be less benefits.

Senator ABETZ—As in cost to motorists?

Prof. Gans—But I do not think it is going to be of negative benefit to consumers, from the analysis, I would say. Even Professor Harding's paper shows a modest benefit of a different magnitude than the ACCC found.

Senator ABETZ—And in fact showed cost.

Senator FIELDING—I was just interest in page three of your submission, and part of your answer too. It says:

But the analysis lends us considerable confidence that, at the very least, implementing FuelWatch would not do harm to consumers or the industry.

I have particular concern about the independents in the market. Did you look at that at all? Is that something you looked at, at all?

Prof. Gans—In every issue of competition, the issue of the larger chains versus the independents comes to the fore. For instance, I was very concerned when Coles and Woolworths introduced shopper dockets that that would wipe out independents. Of course, we have now had a long trend of independents shrinking in terms of their share of the market anyway, but I was very worried that that would be a device whereby that could occur. Since that time, the discounts that you get for groceries have not changed, even though petrol price has doubled, and you look at that and you think that this sinister story just did not seem to hold up.

I would think that in Western Australia, where there might have been some changes to this, it was of course the proactive entry of Coles that was a much bigger effect than anything Fuelwatch would give. What I would like to see is an opportunity, and that is why I would like to see more than the 24-hour fixing tweaked and given there. You know, if I am an independent station and I do not have a brand, and I do not have any advertising machinery, now consumers do not care about that and they are logging onto a website and just looking at price, and that spells opportunity. So I do not necessarily see that, as a matter of principle, this central provision of information is going to be a bad thing for independents.

Of course, in terms of the 24-hour fixed period, that is another question, and it is a little harder to tell if there would be anything. But it could be easier for the independents to know their local markets than someone in head office of Shell and Caltex who is trying to set these prices for 24 hours all around the country, the gate prices and things like that, and trying to reflect all that. It could be a nightmare for them, for all I know. Economic theory is ambiguous on this point, but in terms of worrying about independents, there were at least other issues that were identified in the ACCC's petrol pricing inquiry that seemed a lot bigger.

When it comes down to it, as I read the inquiry, the ACCC was very concerned about the state of our competition laws, in particular our price fixing laws, with regard to the state of competition in the market. In fact, I never saw them really recommend Fuelwatch at all. There were other things of priority. So a concern that I have is that saying that Fuelwatch is what we are doing I do not think should be the end of the matter. There are a raft of other recommendations that should be taken seriously.

Senator FIELDING—Thank you.

CHAIR—We have heard a lot about behaviour of motorists and whether they come on a particular day and how they will react to Fuelwatch in markets different from Perth. You have said it was difficult to monitor some aspects of it. But is it possible to monitor behaviour from data that is collected now? How can we observe?

Prof. Gans—We have a period of time between now and when the Fuelwatch scheme is up and running to collect data. I do not know what processes could be in place to do that, but it is not without the realms of possibility. The real issue is I think we will be evaluate whether the scheme has been positive or negative, looking at whatever has occurred in around a few months time and what has happened, but it is really this ability to tweak it, to make it better and not have it stick in the market, that will be the challenge. In so many areas of government policy, there is not enough thinking about how we collect the before data, let alone running experiments, trials, and seeing what happens at different places.

In some other areas, for instance, with regard to the banning or putting levies on plastic bags, we are fortunate that different states are pursuing different policies, and we might have some hope in trying to work out what the best alternative is there.

CHAIR—Thank you, Professor Gans, for your evidence today.

[2.58 pm]

RENOUF, Mr Gordon Philip, Director, Policy and Campaigns, Choice

CHAIR—Welcome, Mr Renouf. Would you like to make an opening statement?

Mr Renouf—Very briefly. Choice has long supported the idea of a Fuelwatch scheme. We called for it and we are pleased that the government has adopted it. I guess the point is to talk about why we support it. In addition to the evidence, which suggests that there is likely to be some modest price benefit to consumers—most of them, but perhaps not all—the important thing about Fuelwatch, or some similar scheme, is that it promotes transparency in the market, gives consumers certainty, and reduces the search costs that they currently face in trying to work out where to find the cheapest petrol. Those costs include not just time; they also include money in the form of petrol driving to places that they did not want to be.

I do not think that Fuelwatch should necessarily be seen as a magic panacea for the concerns of the Australian community about petrol prices. There may not be such a solution, although I would endorse Professor Gans's comments relating to the other things in the ACCC's report, at which the government could look. The main thing I am saying at this point in the debate is that from the consumers' point of view we need to put quite a lot of emphasis on their insecurity and concern about the volatility of petrol prices. There is a lot of evidence to suggest that they do not like intraday price changes and that they want to know where they can go on their way home to get petrol at a price that they expect and anticipate. Thank you.

CHAIR—Thank you, Mr Renouf. We have heard that a large number of inquiries about petrol pricing have been conducted over the years. I think many of them have been in response to consumer concerns about volatility and spikes in prices, and then an apparent slowing and going down. Referring to any downward trend, consumers might want to know which petrol station might be leading the trend. Many people have expressed the opinion that consumers will be confused when they do not have cheap petrol on Tuesdays. Most consumers know that Monday afternoon and Tuesday and Wednesday mornings are the cheaper end part of the cycle. If that flattens out to any extent and people are choosing between the ups and downs each day, they will become confused and will not be able to find the cheapest price. Can you lend any credence to that?

Mr Renouf—Clearly, some consumers organise their lives around Tuesday. Purchases on Tuesday are higher than on any other day in the four relevant cities. Anecdotal evidence would suggest that that is more common when prices are at their peak, and that it has backed off lately as prices have come down a little. Consumers learn behaviour through what is going on, but I think they will adapt. There may be some short-term transitional costs. There is no doubt that a small cohort of consumers will probably miss out as a result of this scheme. I think that, on balance, the possible advantage in price and the definite advantage in certainty and transparency about price will make the scheme worth pursuing, which is why we have advocated for it.

CHAIR—Do you have any feedback from your group in Western Australia? We have evidence about surveys that have been done there by the Department of Consumer Affairs that show that consumers like FuelWatch in Western Australia. Do we know why they like it? Is it because of the ready information and because they feel that prices will come down? Do you have any feel for what has happened over there?

Mr Renouf—I will not be able to add anything to that survey result, no.

CHAIR—Fine.

Senator EGGLESTON—Mr Renouf, your organisation is usually very interested in competition. We have heard evidence that the entry of the supermarkets into the retail fuel market in Western Australia has restricted competition because of the requirement to set prices for a day. That means, for example, that if a supermarket chain sets a low price, an independent cannot bring down his price and no other station can match whatever is done by the supermarkets, as it tends to be, and lower prices. Do you have any evidence about that or comments you would like to make relating to its anti-competitiveness?

Mr Renouf—I have three points to make. Firstly, competition is not a goal in itself; competition is a very effective way of promoting consumer welfare. It does not mean that it is the only way. Secondly, having read the ACCC's analysis of competition in the market generally, I think there are some problems with shopper dockets, in the same way that Professor Gans thinks there are some problems with them. I would say that that was the problem; the problem is not Fuelwatch.

Senator EGGLESTON—But it is integral, is it not?

Mr Renouf—Yes, but you should rather take action about shopper dockets, which confuse consumers, and higher prices which are absolutely anti-competitive. FuelWatch, per se, is not anti-competitive.

Senator EGGLESTON—We are talking about the mechanics of how the system works. You are really saying that FuelWatch could be helpful to consumers, but in Western Australia, because of what the supermarkets are doing, perhaps it is not. That is what you are saying.

Mr Renouf—No, I am not saying that. I am saying that, if that is the case, for me the more serious evil is the shopper dockets.

Senator EGGLESTON—But that is part of the system. You are really saying that the concept is okay but in practice it has some flaws?

Mr Renouf—No. I do not know the detail about whether or not there are flaws. I am not saying that there are flaws; I am saying that, if there are flaws in the shopper dockets—

Senator EGGLESTON—The shopper dockets—

Mr Renouf—I do not think it has to be. I think complexity is a really serious problem in Australian consumer markets and the government should be looking at it. However, that is not the subject of this inquiry. I think that evidence about the Western Australian scheme shows that, on balance, it delivers benefits for the consumers. Those benefits are both price and convenience—search-cost related.

Senator EGGLESTON—I wonder whether that is true. We heard evidence that the supermarkets game within the system and post a cheap price for each of the regions in Western Australia, for example, in metropolitan Perth, and perhaps only one service station of their branded group offers that cheap price. Other stations, such as Caltex or Woolworths, offer a much higher price. But consumers, who assume that the posted cheap price applies everywhere, go along and coincidentally—

Mr Renouf—Why would consumers assume that one BP service station was charging the same as another?

Senator EGGLESTON—It is hard to understand why people do things, but that is one of the things that happens. I see that as a serious flaw in the FuelWatch system. It comes to shopper dockets and, more importantly, the requirement that there be no change in that 24-hour price. While more transparency would definitely help consumers, if the 24-hour ban on changing prices were not there the system would work much more effectively.

Mr Renouf—I think that is probably because of two things. First, a cohort of consumers—maybe one-third of consumers—are very price conscious, and they know where the cheapest price is likely to be. Presumably, that cohort of consumers will take full advantage of Fuelwatch to find out which service stations, at what time and on what day, will sell the cheapest price. It will not help them to pick which day of the week. For example, today my fuel tank is empty. I have to buy petrol today. On my way home I will find out which of the five places is cheapest and I will go there. I do not think that cohort of consumers—the most price-conscious consumers—would make that mistake.

Senator EGGLESTON—We heard the story about the thirds—there are three different groups of consumers. I ask you as a final question: do you not think the same intention would be served just by providing a website to which people could go to see where the cheapest prices were without the required—

Mr Renouf—This is the one point on which I do not agree with Professor Gans. You will know at 2.30, 3 o'clock or 4 o'clock what the prices will be. If they are going to go up tomorrow you have the rest of the evening to choose to get the petrol today rather than tomorrow. I am very concerned with the idea that we do not at least trial it on a 24-hour basis. We have some evidence from Perth that largely it works. It seems to me that it gives consumers information to make decisions that they need to make.

Behaviour will change over time and it might be good and it might not. How will it impact? There are elements of speculation involved in different markets. I go back to your question about whether consumers will be confused on Tuesdays. They might be at first but, in due course, people will learn how to use the system to get the benefit. Those thirds of consumers are interesting because some of them will make more use of the system than others. The people who do not, who are not so price sensitive and who are really convenience sensitive, will still go to the petrol station that they like on the way home because it is the most convenient. The people who are most price sensitive will use the tools available to get the best price.

Senator EGGLESTON—Is there not a broader question that the supermarkets are driving the independents out of the market and, in the long run, the supermarkets will dominate the entire market? They will also set prices that might not be quite as competitive as could otherwise be the case.

Mr Renouf—I think there is a real risk. If the independents were driven out of the market the fewer number of players would gain in the system in different ways. Everybody is gaining in the system in different ways at the moment. However, if fewer people were doing it there is that risk, but I do not think it has much to do with FuelWatch.

Senator EGGLESTON—It has in the sense that the supermarkets are put in a position where they can put pressure on the independents and drive them out of the market. I think this is something about which we should have a serious longer-term concern. We will reach a point where we have very few independents at all, and that will be detrimental to consumers.

Mr Renouf—The independents' share of the market was declining before Woolworths and Coles came on board. Since they have come aboard Fuelwatch might or might not be another nail in the coffin. I do not know.

Senator ABETZ—You indicated that Choice is in support of Fuelwatch. You have been campaigning for Fuelwatch. Did your Fuelwatch model take into account shopper dockets?

Mr Renouf—Not in any particular way, no.

Senator ABETZ—You would agree that shopper dockets have a substantial impact on the way in which FuelWatch operates in Western Australia?

Mr Renouf—I do not know what is the impact in Western Australia. I would agree that shopper dockets are a problem and obviously they will have an influence on the market. That will influence the behaviour of some consumers. As Professor Gans said, what is interesting about shopper dockets is that their influence appears to be waning.

Senator ABETZ—What sets the price of petrol? If we are concerned about trying to reduce the price of petrol—and might I add virtually all the evidence is that Fuelwatch will not be reducing the price of petrol—it should not be so much an emphasis at the retail end but at the wholesale end where there does not seem to be much activity. Yet the wholesale end seems to be the driver of the price that people pay at the bowser.

Mr Renouf—I think that the most significant driver of the price is the world oil price, which is something that is outside our control.

Senator ABETZ—Without doubt, but we are talking about those things that we might be able to influence within Australia.

Mr Renouf—I am not sure whether the wholesale price or the retail price is the more important. I agree that action could be taken in relation to competition at the wholesale end. I do not think either of them will make a huge impact on the retail price of petrol. Doing all the things and making all the right decisions by good management or good luck will not make a huge impact on the price of petrol. The price of petrol largely is a result of the world oil price, which is why I said that Fuelwatch would save consumers money. Contrary to your view there is at least some evidence that, on average, the petrol price will come down. It will save them money because they will not have to spend so much time trying to find the cheapest petrol, if that is their concern, and possibly driving further than they otherwise would need to.

Senator ABETZ—This morning the ACCC did not seek to argue that it would reduce prices. What sorts of surveys have you undertaken amongst petrol consumers to establish what drives them to a choice of venue for purchasing petrol?

Mr Renouf—No, we have not surveyed that particular question.

Senator ABETZ—The University of Western Australia has done one, and location seems to be one of the most important drivers. For those that are in the fuel sensitive market, the day that the price is lowest is important, et cetera. When you do an analysis of what tends to drive people to choose a venue, I am not sure whether Fuelwatch will be doing anything for them.

Mr Renouf—I think you are undervaluing the value of certainty for consumers, and the value of avoiding the concern that they have about volatility and risk.

Senator BUSHBY—What about Fuelwatch putting up prices?

Mr Renouf—I do not think there is any evidence that Fuelwatch will put up the price.

Senator ABETZ—Unfortunately that seems to be the case for Adelaide. When you have a ham-fisted approach that does not take into account the diversity of various markets around Australia and you just slap a national Fuelwatch on everybody, there is a very real likelihood—the evidence was strong in South Australia because it has the most competitive retail market—that prices in Adelaide will increase. That one size fits all

approach is not something of which I am very supportive, which is not surprising as I come from the smallest state, that is, Tasmania. There is a plane that is beckoning me to that state, so if I may I will take my leave.

Senator FURNER—Mr Renouf, for the record I am a subscriber to Choice magazine which is an excellent publication. On your website you indicate that Fuelwatch will lead to the allaying of any fears of price gouging or price fixation. First, why is that comment on the website? Second, are you aware of any gouging or fixation?

Mr Renouf—I missed a couple of words. Could you repeat your question?

Senator FURNER—On your website you make the statement that Fuelwatch will allay fears or give confidence to consumers on the subject of price gouging and fixing. Are you aware of any incidents of gouging and fixing that are of concern to consumers?

Mr Renouf—There are two parts to your question. There is a lot of evidence to suggest that consumers believe there is some price fixing or gouging. However, there is limited evidence to suggest that there has been such behaviour. There is the failed prosecution in Geelong, which may or may not have failed because gouging was or was not going on. I think there is a distinction between alleviating consumers' fears and having evidence that much of it is going on. Obviously there is evidence of some, but I think the ACCC's finding is credible. It is more an exception than the rule, to use my words rather than theirs.

Senator FURNER—That statement on the website is to allay any concerns that will continue under Fuelwatch?

Mr Renouf—There is no doubt that a lot of consumers believe that there are problems. But, as I said, I am not sure about fixing. I am reasonably satisfied that the ACCC inquiry suggests that the instances of overt fixing are localised.

Senator FURNER—I am pretty certain that you said that no surveys had been conducted by Choice in respect of Fuelwatch. Is that correct?

Mr Renouf—No surveys have been conducted by Choice in respect of the question relating to consumers' preference for when, how and why they would buy petrol. We have been relying on national and Western Australian specific surveys that have been published in various forms, including the ACCC's reports.

Senator FURNER—Do you intend to do any?

Mr Renouf—It is not out of the question but we have very limited resources and we need to focus on areas where others are not doing work, and areas where new issues need to be put on the table. This one is very much on the table and people with far more research capacity than we have, have been undertaking research.

Senator FURNER—I guess it is difficult to market a product—like you do with all the other products, and your comparisons, whether they be white goods or electrical goods, are able to demonstrate which is the preferred model as opposed to another—given that the only model we have in place is in Western Australia. As a consumer group that provides information to your subscribers I imagine it would be extremely difficult to provide that information through a survey, based on the fact that it is in place in only one state.

Mr Renouf—When we are looking at products we are comparing how things work—features consumers want to have in products—and their price. That is something that we can do. Petrol obviously is petrol, more or less and I suppose you tend to one side. If you are talking about Fuelwatch as a product, our analysis is based on the public's research of Fuelwatch and on the petrol market—various surveys that are reported by other people. We have not done a great deal of original work on this; we listen to what the consumers say. One of our other deputy chief executive officers has been monitoring petrol prices in the petrol price debate for decades. I think what I wanted to say is that we have a long rather than deep analysis of the current petrol market.

CHAIR—Because they have been monitoring FuelWatch for such a long period in Western Australia they have a wealth of data. It is interesting that they have provided us with a proportion of unleaded petrol volume sold by categories of retailers in Perth. In 2004, company controlled was 25 per cent and in 2005 it was 22 per cent. In 2004, independents were 17 per cent and in 2003 they were 13 per cent. In 2004 supermarkets were 58 per cent and in 2005 they were 65 per cent. Those categories go up and down. I would have thought that that was particularly high in Western Australia for the supermarket categories—higher than in other places.

It proves that there is a great deal of variation in the market. There is a great deal of variation. Depending on world trends and underlying industry trends there is a great deal of variation in the break-up between supermarkets and the so-called majors, which are not much above the independents in Perth. My key question

is: as Fuelwatch is being layered on top of that do you think it will have a significant effect on any of those factors? Obviously you have campaigned for it and you do not think it will have a detrimental effect.

Mr Renouf—I would say that there are changes in the composition of the market that is selling petrol and many things will influence that. Fuelwatch probably will have an impact on it. Our support for Fuelwatch is based on reducing confusion, reducing search costs, and creating certainty. Frankly, it has not had regard to its potential impacts on the structure of the market. I think that would be crystal ball gazing. I do not think anybody can do more than speculate on what that impact would be, and whether that impact is more important than other innovations that the market and other players may or may not come up with in the future.

CHAIR—This is the difficulty to which Professor Gans alluded. It is always difficult to keep everything else controlled while you are monitoring one thing. That is our fundamental problem here.

Senator EGGLESTON—Mr Renouf, I was very interested in the fact that you said you had not done your own surveys in Western Australia. I was also interested in the comments you made earlier about the impact of the supermarkets on the market in Western Australia. Are you aware of the work of Professor Sinclair Davidson from the Institute of Public Affairs? He suggested that the ACCC had not put enough emphasis on the impact of the supermarket entry into the retail fuel market in Western Australia. Are you aware of the Harding critique which suggested that the ACCC was not very robust in its analysis and had not paid enough attention to the impact of supermarkets on the Western Australian market?

Mr Renouf—I am not aware of that work. I think these are live questions but, as I said before, I cannot see how it is anything more than speculation about what the impact would be.

Senator EGGLESTON—It is fairly clear if you go to it. The supermarket effect began before FuelWatch was introduced in Western Australia. Their conclusion was that FuelWatch had very little impact on the Western Australian market. What we have observed in petrol prices in Western Australia is largely due to the supermarket effect.

Mr Renouf—This is where I am critical of those who are concerned about Fuelwatch solely on the basis of whether it will have an impact on price. I do not think there is very strong evidence to suggest that it has had a negative impact on price. There is some evidence to suggest that it has had a positive impact on price. But, to my mind, people just do not seem to count search costs, and consumer certainty is valuable. I think they are very valuable. Consumers are saying, ‘We do not like intraday fluctuations.’ With all respect to Professor Gans, I do not think that producing fancy systems to extract an extra quarter of a percentage point in the price for some consumers and not others is as important as having transparency, certainty and reducing other costs with which consumers are faced in their daily struggle to get the cheapest petrol.

Senator EGGLESTON—Nobody disagrees with you about transparency. It is a good idea that fuel prices should be transparent and available to the public in an easily accessible form. But, in the end, it is about price because that is the reason people are looking at fuel prices.

Mr Renouf—One-third of the consumers surveyed said that they would rather have less volatility and a higher price.

Senator EGGLESTON—There are three groups, are there not?

Mr Renouf—That third does not necessarily map onto the three groups.

Senator EGGLESTON—Perhaps. I will leave it at that.

CHAIR—Thank you, Mr Renouf, for coming in this afternoon.

[3.24 pm]

BRADLEY, Mr Robert Desmond, President, Automobile Association of the Northern Territory

Evidence was taken via teleconference—

CHAIR—Welcome. Would you like to make an opening statement?

Mr Bradley—As you know, we are a very small jurisdiction. From all our research there really is no price fluctuation or cycle in the Northern Territory. It tends to be very stable. There is not a lot of intraweek competition. From that perspective we do not know whether there is any point in fuel tracking in our system. The other point that is a bit different is that one of the local radio stations has set up a local fuel watch, which has been running for about six weeks. It is going extremely well. It has been generated by the public and the public access their website or they get an email message every day at 11.45 am informing them of the best prices around town. That is why we really do not think it would work in the territory.

CHAIR—Mr Bradley, if a local commercial radio station has gone to the trouble of setting up this service and it appears to be popular would that not support the idea that there is some basis for instituting Fuelwatch because people are keen to hear what service stations around town are charging?

Mr Bradley—That is a yes and no question. We would say that, yes, there is a need for it but we think that the private enterprise one, which is at no cost to the taxpayer and which is driven by consumers, appears to be a much simpler system. What has happened—I was talking yesterday to the guy who runs it—is that a couple of fuel distributors or service stations have asked whether they can use it. Some of the local service stations are using it and it is highlighting the difference in prices within Darwin. It can be up to 9c a litre from one part of Darwin to the other.

CHAIR—So there is a difference of up to 9c a litre. Provided that consumers listen to that radio station, they will get their message.

Mr Bradley—No, they do not have to listen to the radio station. It is on the web.

CHAIR—Is there a similar radio station or a similar service in Alice Springs?

Mr Bradley—Not that I am aware of.

CHAIR—Do you think that they might also benefit from such a service?

Mr Bradley—Once you get out of Darwin you are looking at quite small towns. Darwin has roughly 150,000 people, Katherine has roughly 10,000 people, and Alice Springs has roughly 10,000 or 15,000 people. You tend to get service stations clustered together, so you get a lot of local knowledge all within one kilometre of each other.

CHAIR—You have many tourists in the Northern Territory. Perhaps travellers who do not have the local knowledge would be interested in knowing where the cheapest service station might be, in particular, travellers who are feeling sensitive to the recent increase in petrol prices. They might be very keen to know where the lowest petrol or diesel prices are.

Mr Bradley—They certainly are. Anecdotal evidence shows that every caravaner knows very quickly exactly where the cheapest things are. They tend to network very well with each other. There could be others that do not network, but a lot of them can tell you where to find the cheapest caravan parks, the cheapest food, the cheapest fuel and the cheapest grog.

CHAIR—Why would you then object to the government providing that information all around Australia for people who can or cannot network? Why not provide it quickly and easily for everyone?

Mr Bradley—The other issue we have is that it tends to lock in service stations. From our reading of the proposal it tends to lock in service stations for 24 hours. If they are locked in for 24 hours and the person next to them has a lower price, basically, they cannot sell petrol for that day because they are not allowed to mark down their prices.

CHAIR—But we are talking about consumers, and that is the government's stated intention. If you are travelling from Tennant Creek and you want to stay in Katherine that night, you can look on the Internet to find out which is the cheapest petrol station along the way. Will that not benefit consumers quite considerably?

Mr Bradley—Along the way there is a service station at—

CHAIR—Elliot?

Mr Bradley—I think there are about three at Elliot and they are all together. There is one at Renner Springs, which is 200 kilometres away. There is a single one at about three other stops on the way until you get to Larrimah, and I think there are about three there that basically are all next to each other.

CHAIR—If you left Tennant Creek you could check up to find out which of those service stations was the cheapest.

Mr Bradley—You could, yes.

Senator EGGLESTON—You appear to be saying that in the Northern Territory, and in Darwin in particular with this radio station and a website—perhaps you could tell us later what that involves—people like transparency. They can see what the prices are. You said that industry does not want to see prices locked in for a day because it will mean that they cannot change their prices to meet the competition. Is that correct? Is that your position?

Mr Bradley—I think that is a pretty fair summation, yes.

Senator EGGLESTON—That relates to the fact that Darwin is a pretty small market in itself and towns like Katherine and Alice Springs are even smaller. If one station in those small places happened to lodge a very cheap price it would get all the business that day and the other stations in the town would not get any. Is that the case?

Mr Bradley—That is an exaggeration, but that is a possibility.

Senator EGGLESTON—I agree that it is somewhat exaggerated, but that would be the trend, would it not?

Mr Bradley—You would think that that would be the way it would work, yes.

Senator EGGLESTON—What you are really supporting is the concept of transparency about fuel prices, but not this 24-hour lock-in?

Mr Bradley—I could live with that assumption, yes.

Senator EGGLESTON—That is very interesting and useful. I wish to ask you some general questions about fuel in the Northern Territory.

Mr Bradley—I will attempt to answer.

Senator EGGLESTON—I am sure that you can. I used to live in the Pilbara for a long time, so I know about things in the north. I presume that your fuel comes in from Singapore?

Mr Bradley—Indeed it does, yes.

Senator EGGLESTON—What is the average price per litre for unleaded fuel in Darwin? What is the standard price?

Mr Bradley—At the moment, according to the fuel track, the one we had yesterday, the current cheapest price for unleaded petrol is about \$1.58 a litre.

Senator EGGLESTON—Is that the price around Darwin?

Mr Bradley—Yesterday it varied up to 9c a litre.

Senator EGGLESTON—Is there a daily variation?

Mr Bradley—No. It tends to be very stable, but different operators have different prices. In Adelaide you get your cycles up and down on a weekly basis. That does not happen in Darwin. It tends to be a stable price. But some operators are consistently cheaper than others.

Senator EGGLESTON—In the north-west of Western Australia, in the Kimberley, in the Pilbara and further south, one company imports the petrol from Singapore and then distributes it to the other brands. Is there more than one importer in Darwin?

Mr Bradley—I do not believe so. At the East Arm Wharf they have a tank farm which, from memory, is part-owned by the government. All the fuel comes into that one depot and it is distributed from there.

Senator EGGLESTON—Is that depot controlled by one company?

Mr Bradley—I think so. I think it is called Vopak.

Senator EGGLESTON—Does it distribute to Shell, Caltex and other operators?

Mr Bradley—That is my understanding, yes.

Senator EGGLESTON—That is certainly what happens in the Pilbara and in Kimberley, and the fuel is imported by BP. I presume that Caltex and Shell purchase it from BP. The strange thing about the Pilbara and Kimberley is that the prices at all the stations do not vary from town to town. That is the evidence that we were given.

Mr Bradley—Right.

Senator EGGLESTON—It seems that there is a difference in Darwin; there is some variation there. What about in Katherine and Alice Springs?

Mr Bradley—You would be surprised about Katherine. Our research shows that Katherine is invariably up to 5c a litre cheaper than in Darwin.

Senator EGGLESTON—I am not totally surprised about that, but I think it is an interesting fact. I presume that the fuel is being transported down from Darwin?

Mr Bradley—Indeed it is. We had suspected that. The history is that when United first came to the territory it had only one station, and that was in Katherine. All of a sudden, as soon as there was some competition, the price in Katherine was significantly cheaper than in Darwin. Even though United is now in Darwin, that price differential has tended to remain.

Senator EGGLESTON—That is very interesting.

Mr Bradley—That came up on the local fuel watch.

Senator EGGLESTON—In Darwin you have Shell, Caltex and BP. Do you have any other operators?

Mr Bradley—United.

Senator EGGLESTON—You did mention that. There are four operators there. How many stations or sites are there in Darwin?

Mr Bradley—Probably in the range of 30 to 40. I am really guessing at that.

Senator EGGLESTON—Is Darwin's population 80,000 or 90,000?

Mr Bradley—The population in Darwin is greater. It includes Palmerston and the rural areas. It is probably up around 120,000 to 150,000.

Senator EGGLESTON—That is bigger than I thought. It is a substantial market. You said that you support transparency rather than fixing prices for the following 24 hours. You also mentioned a website. Could you tell us who established that website and how it works?

Mr Bradley—Okay. It is on the web and it is set up by MIX 104.9, which is a local station, and Terrorbyte.com.au, which is the local fuel watch. You or anyone can register; there is no charge for that. You then have the right to put on whatever you want. The idea is that you go and buy your tank of fuel, go home and text through the price you got and where you got it from. That is then uploaded onto the computer and it becomes available. If you are a registered user, at 11.45 each day they send you an email telling you the prices around town at various locations. If you are not a registered user you simply go online and the cheapest ones are listed there. If you are a user you are able to access more specific information. It started about eight weeks ago. As at yesterday they had 547 registered users and they are saying that it is growing at about 10 per cent a week, and they had 6,000 hits last month.

Senator EGGLESTON—Thank you very much. A similar system to that is run by WIN Television across regional Queensland. Thank you very much for your evidence.

Mr Bradley—Thank you.

Senator FURNER—Good afternoon, Mr Bradley. It appears as though there are no fluctuations of prices to the degree that is happening in other major capitals, being Brisbane, Sydney, Melbourne and Adelaide. Would that statement be correct?

Mr Bradley—That would be my interpretation of what is going on, yes.

Senator FURNER—Other than the figure of \$1.58 a litre for your ULP, with a variance of 9c, it is pretty well stable at around that sort of figure, or it is a stable median price for ULP in Darwin?

Mr Bradley—Yes. I often drive past the United service station and its prices are going down. Two weeks ago it was just a whisker under \$1.70 a litre. As the price of crude has gone down its prices have gradually dropped, but it tends to be stable for, say, four or five days at a time.

Senator FURNER—Basically, with the average price that you have in Darwin, how often would it vary in a day or in a week? Would it vary several times during the day or during the week? Can you explain that to me?

Mr Bradley—It does not tend to vary much. I guess it tends to vary when they get in a load, as opposed to varying in the southern states for competitive market reasons. They may have a stable price for a week and a half.

Senator FURNER—If you have an arrangement whereby prices are reasonably stable what would be the harm in locking in prices for 24 hours?

Mr Bradley—As we see it, and in particular if you were next to a Coles or a Woolworth's supermarket, they could drop the price and run it as a loss leader. Basically you would not be able to sell anything and you could not adjust your margins or your price to compete with them. I guess that is our biggest concern with the 24-hour lock in.

Senator FURNER—You said in respect to independents that generally you have Shell, Caltex, BP and United. Are there many, if any, independents around Darwin or in other parts of the Northern Territory?

Mr Bradley—I am afraid that I really could not answer that question. My knowledge is not good enough for that.

Senator FURNER—I have one last question. Your sister organisations in Western Australia and in New South Wales have indicated that they are in favour of Fuelwatch.

Mr Bradley—That is my understanding, yes.

Senator FURNER—Do you correspond with them, or converse with them on their differences of opinion?

Mr Bradley—Yes. I am a director of the Australian Automobile Association, the peak body. We had a lengthy discussion about it at our last meeting. Because there is such a divergence in opinions, basically each state was defined as a separate market and it was up to the local clubs to work out what they thought was best for their market. We are more in line with the philosophies in Queensland, South Australian, Victoria and Tasmania.

Senator FURNER—Thank you, Mr Bradley.

CHAIR—Thank you, Mr Bradley. That concludes our inquiry this afternoon. Thank you for coming along.

Mr Bradley—Thank you very much for your time.

Committee adjourned at 3.46 pm