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

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**SENATE STANDING COMMITTEE ON
ECONOMICS**

Wednesday, 16 July 2008

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), 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, 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, Eggleston, Furner, Hurley and Pratt

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 8.00 am

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Economics Committee inquiry into the National Fuelwatch (Empowering Consumers) Bill 2008. On 17 June 2008 the Senate referred the bill to this committee for report not before 29 September 2008. The bill proposes to introduce a national scheme based on the FuelWatch scheme that has operated in Western Australia for some years. The objective is to empower consumers to make informed decisions and purchase fuel at the lowest possible price. To this end, petrol retailers will be required to notify the Australian Competition and Consumer Commission of their next day's fuel price by 2 pm each day and must sell at their notified prices from 6 am the next day to 6 am the following day.

Among other things, the inquiry will examine the impact of the proposed Fuelwatch scheme on the price consumers will pay for motor fuel, including unleaded petrol, diesel and LPG, in metropolitan areas, regional centres and rural Australia, and the economic benefits and costs of the proposed Fuelwatch scheme to consumers in metropolitan areas, regional centres and rural Australia. This is the second of several public hearings for this inquiry. FuelWatch has operated in Western Australia for many years, so we are keen to hear whether it is regarded as a success in Perth, Western Australia.

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 a contempt. It is also a contempt to give false or misleading evidence to a committee. 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.

[8.02 am]

DRISCOLL, Ms Anne Marie, Commissioner for Consumer Protection, Department of Consumer and Employment Protection, Western Australia

RAYNER, Mr Aaron, Deputy Prices Commissioner, Department of Consumer and Employment Protection, Western Australia

CHAIR—I welcome Ms Driscoll and Mr Rayner from the Western Australian Department of Consumer and Employment Protection. Do you wish to make an opening statement?

Ms Driscoll—Yes, a brief statement. We would also like to share with you some recent data that we have in relation to FuelWatch as an additional paper or statement to that which we have submitted formally. We have some new data for June, which I think is useful in the current climate of increasing fuel prices.

CHAIR—First of all, do you have any comments about the capacity in which you appear?

Ms Driscoll—I am currently the Commissioner for Consumer Protection in WA and I additionally have the title of Petrol Prices Commissioner. I have been in the role for about three months in a relieving capacity. You will be aware that our former commissioner, Pat Walker, obviously has now commenced with the ACCC as a commissioner. I have previously been a director in consumer protection for some years but did not have a direct responsibility for FuelWatch and I do not claim to be an expert. However, we certainly do have quite a deal of data, which we have provided through the submission. We would certainly welcome the opportunity to provide and support this committee with any additional data that you might want through today's discussions or, alternatively, we will respond as quickly as we can to get any supplementary information you may wish to have.

I also introduce Aaron Rayner, who is our Deputy Prices Commissioner. Mr Rayner works in a more dedicated capacity in supporting prices surveillance in terms of FuelWatch in WA and has generally been our public spokesperson on this matter. Mr Rayner has been with us approximately eight months. Mr Rayner has a small support team with a range of expertise and experience in this field. Mr Rayner will probably respond to most of your questions today. We have a brief opening statement and then, as I said, we would like to share some recent information to augment our initial submission.

FuelWatch in WA is really about transparency. It has never claimed to be an answer to the worldwide shortage in fuel that we are experiencing at present. It is really about letting consumers know about prices in the next 24 hours and, if they choose, enabling them to make decisions about where they will purchase their fuel. On average at present consumers can save between 13c and 14c for most types of fuel in Perth. Interestingly—and we will certainly emphasise this through data—over the last six months in particular, as fuel prices have increased, the attention paid to FuelWatch has significantly increased. Obviously, because of mortgage and rental pressure, which is a major issue in WA, and also rising food prices in WA, people are increasingly using FuelWatch as a source of information.

As you know, the information is available to people through a variety of means. Currently, almost 300,000 people are accessing the FuelWatch website per month. Over 32,000 are receiving personalised emails daily so they can make choices about where they buy their fuel. As I said, people can save about \$7 a trip to the petrol station through the current arrangements, and clearly a large number, an increasing number, are choosing to do that.

The impact in the regional centres has been varied. Certainly where there is competition it has been quite a successful and beneficial service. In the likes of Albany, people can get up to a 16c per litre difference between the lowest to the highest priced provider, and 12.6c in Geraldton and 8.1c in Kalgoorlie. In the larger centres, there clearly is an impact in terms of what FuelWatch can do for the local purchaser. As I said, it is also about certainty. It is one thing to have the option but it is clearly important that people are then able to exercise that option. It is about ensuring that not only the retailers of fuel have information about the market but also that consumers do and are able to exercise that choice.

Of course, one of the key criticisms and allegations about FuelWatch has been that it impacts on the composition of the marketplace in terms of retailers. That has not been our experience in WA. The sole operators or independents have increased in proportion in WA. Previously they were in the order of two per cent of the marketplace and are now six per cent of the marketplace. Independent chains have continued to be approximately 13 per cent of the retail marketplace. I think, importantly, it is also relevant to point out that the

independent chains have continued to have extremely competitive prices, often the cheapest, and as a consequence have maintained their market position while also being very competitive in that field.

In terms of compliance costs for industry, we also observe that, whilst we have FuelWatch in WA, on the eastern seaboard it appears to be a market reality that most of the larger fuel companies are in fact using a private company to do similar things to what FuelWatch does, so there is already an impost on those retailers in terms of declaring their current prices. Indeed, as we understand it, there is a cost for being a participant in that service. We also note that those who do not participate in that have a need to monitor what is happening in their local community and perhaps have to physically go out and observe what is happening with other retailers so that they can determine their own prices.

As you are aware, information has been provided to you suggests that FuelWatch has not had a detrimental impact on pricing in WA relative to the eastern seaboard over several years. In the month of June we observed that the average price for petrol was 3c cheaper than in Melbourne, 4.2c cheaper than in Brisbane—without the subsidy—2.4c cheaper than in Sydney and 2.6c cheaper than in Adelaide. At present there is certainly some information that suggests that fuel prices in Perth are more attractive than they are elsewhere.

As I said, FuelWatch is simply about transparency and enabling competition to work. It provides the consumer with a bit of time to exercise their capacity to choose in that competitive environment. What we would now like to do is provide you with updated data for June, and you will observe what we started to see occurring in May, and has been a continuing theme, which in particular is a change to the traditional price hikes.

CHAIR—That is tabled and accepted.

Mr Rayner—As to the graph that looks at the FuelWatch website visitors and monthly average ULP price for the last two years, Anne referred to the fact that we have observed that demand for FuelWatch information from the community increases in line with increasing petrol prices. That graph shows a very clear correlation of that fact. Anne also referred to the fact that Perth prices in the month of June were cheaper than prices in the eastern states. I do not want to make a big thing about this because, obviously, it is just one month that is represented and that is seen in the context of other graphs that you have before you and in the submission as to how Perth prices track against those in the eastern states. Interestingly—and we might pick this up under the information that you have asked for around price cycles—we have noted in June the complete flattening off of a price cycle or the absence of a price cycle in Perth. This graph shows quite clearly how flat it is in Perth at the moment compared with the regular trends elsewhere in Australia.

CHAIR—You mentioned compliance by retailers and that in the eastern states many of them subscribe to a private service. Have you had any complaints about not so much the cost but the logistics of complying with the requirement to notify prices?

Mr Rayner—No, we have not received complaints as such. Day to day somebody might not be able to log their prices by 2 o'clock, and we have a protocol to manage that. That is very minimal. The submission talks about the fact that we have received over six million price notifications since FuelWatch came into being in January 2001, and the compliance that we have observed with it is extraordinarily high.

Ms Driscoll—One issue that we have recently encountered—and I think it has been a continuing issue—is that one retailer in particular has complained about issues around making the change precisely at 6 am. This goes to the logistics of doing the price boards as well as changing the actual dispensers of fuel. This is a matter that we have been very pragmatic about. We accept that right on 6 o'clock precisely there may be some issues, and so in dealing with any complaints about people not actually imposing that change right at the point of 6 am we tend to be quite reasonable in terms of looking for practical ways to manage such situations and a reasonable outcome. We have generally taken the approach that this is clearly about the principle as opposed to being pedantic about small issues that can arise from time to time.

CHAIR—You have inspectors who check and monitor this. How many do you have in Western Australia?

Mr Rayner—We have one full-time dedicated compliance officer based in Perth and we have a number of regional consumer protection officers throughout Western Australia, and they are also charged with the function of monitoring price boards to ensure that the prices that have been notified are the prices at which fuel is being sold to consumers. Again, we observe very high compliance from retailers.

CHAIR—Have costs risen for the FuelWatch program in the time that it has been in operation in Western Australia or have they remained relatively stable?

Mr Rayner—In terms of the government costs?

CHAIR—Yes.

Mr Rayner—The government costs have reduced. At the front end when we were setting up the system we had infrastructure costs for computer systems and so on. To be fair, they are probably coming to the end of their useful life now. We had a larger staff of about 17 full-time people when it first started in 2001 and we have a full-time staff of about 6.5 full-time equivalents.

CHAIR—Does that include the inspector?

Mr Rayner—Yes, it does.

Senator EGGLESTON—Thank you for providing these sheets. They are very interesting. I do agree that in Perth you do not seem to get the cycles quite as much that we see in the eastern states. It is a pretty straight line. Do you have other research? In particular, I understand that, in 2006, \$37,000 was spent on a FuelWatch volume data project. Could you let us know what that was about, who initiated the project and why?

Mr Rayner—Firstly, I think the point we are making with that graph is that the price cycle is non-existent in Perth in the month of June, and we have observed since May this year there has been an absence of a price cycle. But historically, going back to 2006, we have had a two-weekly price cycle in Perth. Prior to that we have had weekly price cycles and 10-daily price cycles.

Senator EGGLESTON—But that has gone now?

Mr Rayner—Yes, it seems to have flattened off in the last three months; that is right. Regarding the study that you referred to, we did not table that study because the years that that study captured were 2004 and 2005, and, given your terms of reference, we made the judgment that the study did not lend itself to it. I have not brought any papers with me, but I am happy to talk from memory about the study and I am happy to provide greater detail of that study should you wish further details.

Senator EGGLESTON—Perhaps you could do both.

Senator ABETZ—Are you prepared to provide us with a full copy of the study?

Mr Rayner—Yes, I am prepared to do that. We collected volume data, that is, the amount of petrol that retailers in Perth and Mandurah sold in the years of 2004 and 2005, and we were looking really at the consumption habits of consumers when they buy fuel. I am not doing the entire study justice here—which I will provide later on. We found the main driver for consumption was in fact the day of the week. Drivers purchase petrol through habit and we found that price was a secondary factor. We found there was a fairly stable demand profile during the week, that is, people tended to buy petrol on Thursdays and Fridays. They were the highest days of the week. We found that consumers switched brand around the time of the price hike. What we tend to do at Fuelwatch is that, when there is a price hike, we let the community know through the media, emails and our website. We found that volume sales transferred from the price hike leader to more competitive brands. Although the study found that consumers are creatures of habit, they found that they are price sensitive around price hikes, so they do switch between brands at the time of a price hike. We also found marginally that price cycles tend to benefit the supply side rather than consumers. That is a very brief synopsis. I have probably not done the study justice, but I will provide the full study to the committee.

Senator EGGLESTON—That is a good outline, but we would like to see the full study. You said that consumers switch between brands.

Mr Rayner—Yes, that is right.

Senator EGGLESTON—Can you give us percentages, from memory?

Mr Rayner—Not from memory, I can't.

Senator EGGLESTON—Would it be a lot of consumers or a few?

Mr Rayner—I am assuming it would be significant. That was a finding of the study. What we tend to find in—

Senator ABETZ—What do you mean by 'significant', sorry?

Mr Rayner—I cannot substantiate 'significant'. I think we will have to wait.

Senator EGGLESTON—Ten per cent might be significant.

Mr Rayner—Again, I do not have the—

Senator ABETZ—All right. We will have the study.

Senator EGGLESTON—It is very important to know the actual figure.

Ms Driscoll—I think it is potentially also important to consider that study in the context of the other data that we have provided in terms of the increasing attention to FuelWatch in the current climate. Prices were not as they are now and there is other information that suggests a study of that nature might be useful to do again to assess the current views of people.

Mr Rayner—I think from memory what was important about the study was that in 2004 there was not a price cycle; in 2005 there was. We are able to do a comparative analysis of the benefits of price cycles. Who do the benefits accrue to? The benefits accrue to the sellers of petrol, not to the consumers, on average.

Senator EGGLESTON—From the price cycles?

Mr Rayner—Yes.

Senator EGGLESTON—We would be very interested in seeing those figures. If you could let us have them within a day we would appreciate it.

Mr Rayner—I am happy to do that.

Senator PRATT—Your submission talks about the purpose of FuelWatch, and you have given us a good outline of that:

... enabling motorists to make informed decisions about their fuel prices, which puts downward competitive pressure on fuel prices.

Could you unpack that statement and provide more detail. Clearly, that is classic competition policy; if people have informed choices, they will move their custom somewhere else and people will need to compete. Do you have any information that highlights the tipping point and how FuelWatch contributes to the number of informed consumers you have to really demonstrate how that downward pressure works?

Mr Rayner—There are a number of statistics here that would probably support the argument that the system of FuelWatch coupled with informed consumers puts a downward competitive pressure on price. When a retailer, as you know, is required to notify tomorrow's petrol prices today at 2 o'clock and then fix those prices from 6 o'clock tomorrow morning and, importantly, fix them for 24 hours, that retailer has to think before they put that price in: 'If I put my price in too high I might possibly be locked out of the market to those price sensitive consumers.' Not every consumer is price sensitive. We accept that. But there are a number of price sensitive consumers in the market. Ms Driscoll has pointed out, as the graph before you shows, that as price goes up so do the number of people seeking information about fuel prices. That retailer has to think, 'If I do not get this price right I am out of the market and I am going to lose volume.' The volume study that Senator Eggleston referred to shows that consumers do switch brands. There is pressure there for the retailer to get it right.

We note that the ACCC, as part of its inquiry, did a study and found that since FuelWatch was introduced in Perth there have been somewhat of a narrowing of the margins. We have not done a study ourselves or scrutinised the econometric analysis in any great detail, but it broadly concurs with what we have found in terms, again, of one of the tables you have before you, which shows that Perth prices since 2001 and certainly going into 2008 have been equally if not more competitive than those in the eastern states. I am sorry, I have not numbered those supplementary handouts.

Ms Driscoll—I understand the margins are considered better here than is the case elsewhere.

Mr Rayner—That was a finding from the ACCC but, again, we have not done our own analysis. Our analysis has been focused in Western Australia.

Ms Driscoll—Perhaps it is relevant to mention the data that has been developed in terms of the recognition levels of FuelWatch in WA, which I understand to be 94 per cent. Generally there is a high recognition of what FuelWatch is about. As you will be aware, it is available through daily television news and the newspaper itself. My understanding is that of the order of 60 per cent of people have indicated that they actually use FuelWatch.

Mr Rayner—That is right. There is a very high brand recognition of FuelWatch in Western Australia. The last survey we did showed that 94 per cent of people had heard of FuelWatch. From memory, I think about 60 per cent of people use FuelWatch, and about 40 per cent of people report saving \$2 a week or more from FuelWatch. There is a very high recognition of FuelWatch and there is a high use. From this graph we can see

that we have nearly 300,000 occasions each month where people extract fuel price information. Coupled with that we also send out about 37,000 emails each day to people who subscribe to receiving fuel price information. Channel 7 in Perth, in its nightly six o'clock news, have a 30-second slot advising people about what the average prices are and where the cheapest prices in the area are. The daily paper in Western Australia, the *West Australian* newspaper, carries a FuelWatch slot each day as well. The recognition of FuelWatch and the community acceptance of it is very high.

Senator PRATT—It is widely accepted that programs such as FuelWatch are really just there to influence the retail margin, and that has been one of the criticisms of the program. I do not expect that there is necessarily an outcome in this regard because, as I said, it is aimed at the retail margins. Is there any evidence that FuelWatch influences anything other than retail margins in terms of wholesale prices and all the things that make up the price?

Mr Rayner—There is not any evidence. We also have in Western Australia a slightly enhanced version of the oil code that prevails in the rest of Australia. We call it the terminal gate price. Wholesale sellers of petrol are required to notify their prices to us as well and lock in those wholesale prices for 24 hours. There is little evidence that that has changed the structure or, indeed, affected the price of wholesale fuel in Western Australia. Where we have noticed most impact is at the retail level.

It is probably worth saying that there seems to be much made about this, and maybe we are contributing to that today by giving out these graphs showing where Perth sits in comparison with the eastern seaboard. I think that really demonstrates that it has not upset the supply side of the market in Western Australia, certainly not in Perth. The real power of FuelWatch is about providing the information to consumers. Today in Perth there is a 17c price differential. Consumers know there is a 17c price differential. That is about \$9 on a tank of fuel. That is powerful information for consumers. They are able to decide whether they are going to go to the most expensive retailer in Perth or go to the cheapest retailer in Perth.

Senator ABETZ—At the very end of your submission, on page 19, under 'Conclusion', I read the four paragraphs. Correct me if I am wrong, but there is no assertion in there that FuelWatch has in fact reduced prices.

Mr Rayner—Your conclusion is right.

Senator ABETZ—I will put this dilemma to you. The pressure is put on—and we have heard this from the ACCC as well—that it is all about transparency. But then when it comes to justification we always have had slid in from the side the suggestion that there might be a price reduction. When push comes to shove, as in your conclusion, you are not willing to fully assert that it has driven prices down. Is that a potted but possibly unkind summary of how FuelWatch justifies itself—that it is all about transparency, but where the rubber hits the road there is no hard evidence to prove that prices have actually gone down?

Mr Rayner—FuelWatch's original objectives, as proposed by the state select committee in Western Australian in 2000, were not to reduce fuel prices. The original objectives were to increase price transparency and respond to the community need about fixing prices for a period of time to provide price certainty. They were the two objectives—price certainty, price transparency—and the FuelWatch system has delivered those two objectives.

What we have observed in the course of 7½ years of collecting this information is that FuelWatch has not upset the natural equilibrium of the supply side. It has not had any negative impact on the supply side. What we can infer from some of the data and what we note from the ACCC's own analysis is that Western Australian prices have not increased because of FuelWatch—and, quoting the ACCC's report, it might have reduced prices by 1.9c per litre.

Senator ABETZ—The prices have been interesting. When Mr Walker first got the job, the *Daily Telegraph* had the huge headline 'Five cents a litre cheaper'. The minister, Chris Bowen, told us it would possibly be 2c or 1.5c a litre cheaper, and now it has unravelled to the point that 'it has not increased prices'. Then the ACCC came to a position that it may have saved 1.9c per litre, but the econometric modelling has been severely questioned. The ACCC is not releasing the basis for that modelling. Professor Harding has done a fairly devastating analysis of the ACCC's assessment. But you have not done your own assessments, so your assertions are reliant on the rigour of the ACCC's assessment.

Mr Rayner—That is right. They do rely on the rigour of their assessment. What we do is observe our prices in relation to the eastern states' prices. The handout that I provided shows that, over the last seven years, Perth prices have been competitive with those of other cities. In 2008, except for Adelaide in February and

Melbourne in May, Perth prices been consistently lower. Indeed, you have a June handout there, where we have no price cycle in Perth, where the price difference is between 2c and 4c lower. We are not saying that FuelWatch has reduced prices; we have not done that analysis ourselves. What we can observe from the data is that FuelWatch has not had any detrimental impact on prices.

Ms Driscoll—The contention has been that, if people want to save money, a service is available for them to do so. Clearly a number of people are not price sensitive and just shop where they choose to. This is about giving choice to consumers.

Senator ABETZ—Being transparent.

Ms Driscoll—Interestingly, at the moment, more and more people are choosing to use this service. Since May, which is when the prices have started to really go up, whilst the price leader has continued to try to spike the price the others are staying down—we will need to see what happens—and people seemingly are using this information to a greater degree. It is hard to know at this stage what that means in terms of how the retailers are responding to that increased focus on FuelWatch.

Senator ABETZ—You would agree that it is cheaper to deliver fuel to Western Australia than it is to the eastern states? There is a price differential of about 0.7c per litre. Do you agree with that?

Mr Rayner—I agree that the notional freight costs from Singapore to Perth are lower than they are for the rest of Australia. That is right.

Senator ABETZ—In relation to Ms Driscoll's commentary about the increased interest in FuelWatch, of course there was a budget delivered in May. There was a lot of talk about FuelWatch in May. There was Brendan Nelson's response of a 5c cut in excise. There has been a lot of publicity associated with fuel and Fuelwatch as well, and whilst higher prices may have played a role we do not really know what the cause of this is.

Ms Driscoll—Deliberately we have provided a graph that extends well beyond one month.

Senator ABETZ—The rest of the graph might suggest that what you are saying is right, but is there no empirical evidence or survey that you can rely on?

Mr Rayner—What we can rely on are those 290,000 people who came to the website and took information from the website in April or May. As you said, there may have been interest from people in Queensland or New South Wales.

Senator ABETZ—That is what I was getting at. That was going to be my next question.

Mr Rayner—We do not have that data yet.

Senator ABETZ—You do not know the home base of the inquiry?

Mr Rayner—No, we do not.

Senator ABETZ—Chances are a lot of senatorial offices in Canberra were accessing FuelWatch as well.

Senator PRATT—There aren't 290,000 of us.

Senator ABETZ—That is exactly right, thank goodness! I think the population are delighted by that fact. Mr Rayner, on *The 7.30 Report* on 29 May 2008 you stated that FuelWatch saves the consumer the effort of driving around looking for the cheapest prices. I think that is right, but you would agree that grocery prices vary, too. Vegetable prices go up and down from one shop to the next. You can buy a kilo of tomatoes for \$2 and the next shop might have them for \$5. Where is the consumer protection on a whole range of other commodities and products that consumers are interested in? How can you say that FuelWatch is delivering something vital? This is not being delivered in respect of any other consumer product.

Ms Driscoll—Clearly as government employees our role is to implement decisions of the government, and in this instance a decision was made to implement a FuelWatch system. That was following a major parliamentary committee review, which observed that there were issues about price cycles and transparency, and a decision was made to implement this policy. We have been a part of that delivery. Whether there is information warranted for consumers in other areas is obviously an issue of constant debate. But it is true to say that in other areas of consumption and consumer purchases there has not been this unusual trend of hikes and decreases in prices, and that is probably the backdrop to the decision of the state parliament to introduce this arrangement.

Senator ABETZ—Do you have any studies to show that the prices of vegetables are not cheaper on a Monday than on a weekend?

Ms Driscoll—The other thing to note about petrol is that, unlike when you go into a grocery store—where there are clearly many hundreds of different items that one might purchase, and difficulties arise in monitoring all of those prices—in the case of fuel, depending on which fuel you are getting, it is one purchase. Again, as I said, there are interesting cycles that are continuing and have continued through past experience. So it is really about taking out the emotion and providing some information.

Senator ABETZ—You are the department of consumer protection, and I thought you may have had some further information in that regard.

Ms Driscoll—Certainly we visit supermarkets to confirm accuracy of scanners, and so on. Clearly there is some consideration at the moment about other price monitoring in other sectors of the economy.

Senator ABETZ—If I recall correctly from Senate estimates, FuelWatch in Western Australia had done some surveys that had never been released to the public. When Mr Walker was asked about that, if I recall correctly, he said that he was no longer in the show and it is now for FuelWatch and the Western Australian government. Are you aware of any surveys undertaken by FuelWatch about public sentiment and so on that have not been released to the public?

Mr Rayner—We conduct an annual survey to monitor against a couple of key performance indicators within our department.

Senator ABETZ—Have any of those ever been released?

Mr Rayner—Not to my knowledge.

Senator ABETZ—Why not?

Mr Rayner—I think they are used for internal purposes in terms of reporting the key performance indicators and also for policy development. The information that we gather is to find out the mediums by which people are getting our information. We want to keep track of this. Of course, we collect this information but the big thing we do is actually disseminate this information. We want to make sure that people are accessing it and we want to keep an eye on those trends.

Senator ABETZ—Forgive me for being cynical but chances are that, if the surveys were a glowing endorsement of FuelWatch and saying everything was hunky-dory, ‘We like it’ or ‘You ought to finetune it in this direction or that direction’, there would be no harm in releasing all that survey data. If the federal parliament were to consider setting up a Fuelwatch system I would have thought that sort of survey data and the learnings—if I can use that terrible term—from those surveys would be very helpful to the federal parliament in establishing the sort of model of Fuelwatch that it might adopt. If you could take that on notice and give consideration to whether or not you would be allowed to release all the surveys that you have undertaken and the data, that would be very helpful. Mr Rayner, on the *7.30 Report* you also told us that you can understand there would be some anxiety from oil companies about a national implementation of Fuelwatch. What did you mean by that?

Mr Rayner—From memory, at that point of the interview I was talking about the ACCC findings on fuel prices in Perth—FuelWatch had reduced those by 1.9c per litre. Although that does not sound a lot, that does equate to some quite significant sums once that is totalled up over the state and indeed the country. In fact, from memory, a total of about \$300 million might transfer from oil companies to consumers. For example, if the 1.9c per litre margin that the ACCC found were to be replicated across Australia, that would represent a significant transfer of those monies. I was inferring that and that one might suspect that people would be anxious.

Senator ABETZ—I have received a lot of submissions from small petrol station owners, independents, and so on, but nothing from the big oil companies. It is the independents that are concerned about Fuelwatch and that are anti-Fuelwatch; the big oil companies in fact do not mind. As I understand it, Caltex has asserted publicly that it makes its biggest margins in Western Australia. I had a private discussion with another oil company that basically said, ‘Make FuelWatch go national; see what I care. We make our biggest margins in Western Australia, and I concur with what Caltex says in that regard.’ If the margin comes down, it really does squeeze the independents and the smaller retailers or the franchisee rather than the oil companies, does it not?

Mr Rayner—I was making a general observation about the whole of the market by saying if those margins were to decrease across the country that represents a significant sum. As to where that money comes from, in

terms of whether it comes from oil majors or independents, I was merely making the general point that, because of the downward competitive pressure that FuelWatch has exerted in the Perth market, there may be some anxiety out there.

Ms Driscoll—Again, I would remind you that we also observe the changes to composition in the market since FuelWatch has been present, and clearly the proportions have not changed. Indeed, in terms of the sole independents as opposed to those that are part of independent chains, they have actually increased from two per cent to six per cent.

Senator ABETZ—When Caltex and Ampol got together they got rid of a lot of their stations, did they not?

Ms Driscoll—That is true, but it was replaced by the supermarket chains connection.

Senator ABETZ—No, they were not. When they got together they got rid of a number of stations. If there was a Caltex and Ampol in the same town or suburb, they would get rid of one of them.

Ms Driscoll—I think we have observed quite a change to the way that petrol stations operate in terms of now providing a whole range of goods et cetera. So it is a different market, but the proportions have not changed.

Senator ABETZ—Time is short so I will not labour that point. There seems to be a huge focus on the price and the price variation, but I would be very interested in knowing at what part of the cycle the majority of fuel is purchased. I think there is survey information that suggests in Western Australia a significantly fewer number of people in Western Australia are even aware that there is a fuel cycle, which suggests that in the eastern states, without Fuelwatch, people are a lot more savvy in relation to the fuel cycle and watching it. If there are two service stations, one that sells its petrol for \$1 a litre and another for 50c a litre, you could say that the average price is 75c per litre. But of course if the service station that sells its petrol at 50c a litre sells all the petrol, the average price paid by consumers is not 75c but in fact 50c a litre. I would have thought that the quantity of fuel sold at any stage of the price cycle is a vital component of any study. The eastern seaboard states seem to indicate that, as you go through the percentiles, the vast majority of fuel is bought in the first three or four percentiles. The comparison of price, whilst interesting, does not in fact tell me what I want to know—that is, how much fuel is sold at the various price levels. Do you have any information on that?

Mr Rayner—From memory, I believe the volume study that Senator Eggleston referred to does cover that. I do know that the most popular days that the community tends to buy fuel in most cities across Australia are Thursday and Friday.

Senator ABETZ—I thought it was Tuesday?

Mr Rayner—Certainly in Western Australia it is Thursday and Friday. I think, from memory, in Sydney there is what they call cheap Tuesdays. I recall the debate at your committee over the ACCC's data that about 20 per cent of people buy petrol on cheap Tuesday. I think very price-sensitive people will be aware of the price cycle. You are right in saying that people are more aware of the price cycle that occurs in Sydney than, for instance, Perth consumers. But Perth consumers, equally, are very aware of FuelWatch and the information that FuelWatch offers and they do not have to wait just for a cheap Tuesday in Western Australia. For instance, they can identify that price differential seven days a week. That price differential is apparent seven days a week as well.

CHAIR—Senator Abetz, we have a couple of other senators who would like to ask questions, so I would ask you to wrap up and I will get back to you.

Senator ABETZ—Yes, I have one last question that relates to the way fuel vouchers and other advertising works. If I have a service station—and I will make the figures easy, because my maths is not good—and I advertise \$1 a litre and I register that with FuelWatch, but I then have vouchers in the system such that, if you present such a voucher, you get 4c off. That means the consumer could buy it at 96c a litre. Is that right?

Mr Rayner—That is right.

Senator ABETZ—And they would not be breaking the law?

Mr Rayner—That is right.

Senator ABETZ—What would happen if I had set my price at \$1 a litre but the fellow down the road had set it at 90c a litre? I would still have to advertise that it was \$1, but could I put a big sign outside saying, 'Buy a 5c lolly with your fuel and you will get your petrol at 90c a litre'? Would that be allowed, as another voucher-type system?

Mr Rayner—My interpretation of our legislation is that it would be allowed, because it would be a pre-existing arrangement. What is written into our law is that with vouchers and contracts et cetera if there is a pre-existing arrangement—

Senator ABETZ—I meant if I did that on the day. What I was thinking about last night was this. It is about 2.30 pm that consumers become aware of what the price is going to be the next day. I could book a whole page in the *West Australian* for an advertisement, which can provide copy to them, I would assume, at 4 o'clock in the afternoon, and if I were to say, 'Present this page of the *West Australian* to your local BP dealer and get 10c a litre off', and that way you match whatever Caltex may have set its price at. Would that be illegal?

Mr Rayner—I would probably have to take that one on notice. I would have to get a better legal opinion on that.

Senator ABETZ—If you would not mind.

Senator FURNER—Firstly, I commend you on supplying supplementary data this morning. It is interesting and rewarding to get data on matters that are under inquiry at these hearings. One thing I derived from this graph in respect of the period of June was that it appears to demonstrate a clear degree of consistency and certainly goes against the grain in respect of particularly the state where I originate from, Queensland, where we have an excise far in excess of five per cent. It appears to do away with the fluctuations in the markets, which concern consumers greatly in terms of purchasing fuel. Although you have indicated that you have data only for June, in retrospect were there periods consistent with that illustrated in this supplementary data, that is, a consistent flow of prices along that timeframe?

Mr Rayner—We have also provided another graph with a set of tables underneath. That shows that the price cycle in Perth started to peter out towards the end of April and really just tracked the wholesale price. Going back in time, one of the terms of reference addressed was the amplitude of the price cycle. We find that in Perth since 2003 we have had a range of price cycles, from eight days to seven days to nine days, 13 and 14 days. Likewise, Sydney, Melbourne, Brisbane and Adelaide have all had price cycles of varying lengths, although in the last year or two they have honed down to a weekly price cycle in those times.

Ms Driscoll—I think I may have mentioned that in those graphs we can see there have been attempts by the price leader to increase the price since around April/May but the others are just not following. It is a very interesting time in that sense.

Senator FURNER—You are correct in your submissions about an artificial type of fuel-watch being in place in other states as well. I cannot speak for the other states outside of Queensland, but certainly in Queensland there is an artificial fuel-watch in existence currently; independents or majors are able to give their prices and have them scrutinised by consumers to access cheaper fuels.

Mr Rayner—There is an organisation, which does not operate in Western Australia, called Informed Sources, and a number of petrol retailers and oil companies subscribe to Informed Sources. Part of the deal is that they provide what they call real-time information. They are constantly providing this information to this organisation, and then I understand this organisation is primarily set up to disburse its information amongst the supply side. I do not think it is set up for dissemination amongst consumers.

Ms Driscoll—As I understand it, there is a service delivery charge associated with that in addition to the charge of providing the information, as you would expect.

Senator EGGLESTON—We have had reference made to vouchers, which are essentially provided by Coles and Woolworths, who also operate service stations. A view has been expressed that the introduction of FuelWatch coincided with the large supermarket chains also becoming involved in selling petrol. In fact, some people, such as the Institute for Public Affairs, have suggested that the real factor in stabilising fuel prices in Western Australia has in fact been the large segment of the market, which Coles and Woolworths now control, and the fact that they offer vouchers that discount the price of petrol. Would you like to comment on that?

Mr Rayner—We certainly observed in 2004 and indeed 2005 a lowering of the indicative retail margin. Although we did not conduct any regression analysis, et cetera, to draw any conclusions, we did draw the conclusion that the entry of the supermarkets did have a downward pressure on prices. I think that is a reasonable conclusion to draw. We have noticed in the last couple of years, though, that the retail margins have restored to where they were before Coles and Woolworths coming into the market in Western Australia.

Ms Driscoll—It is my understanding that these same supermarket chains were establishing themselves and increasing their market penetration in the eastern seaboard at the same time as they were in WA. I have some

information in there but do not claim that it covers the situation entirely. Is that your understanding as well, Mr Rayner?

Mr Rayner—My observations are just for the WA market. Of course when they came into the market—

Ms Driscoll—I have seen some data and my recollection is that there were some significant increases in other states at the same time it was occurring in WA.

Senator EGGLESTON—That is interesting. On Monday we were in the Pilbara and one of our witnesses was Mr Wayne Rowe, who is a Caltex dealer in Karratha, and he was very strongly of the view that the supermarket factor was a key factor rather than FuelWatch. He also owns service stations in other areas, including one area you did not mention in your regional overview, and that was the southwest area including Bunbury and Busselton. Can you make some comment about the effectiveness of FuelWatch in that particular area, which is where the largest regional population of Western Australia lives?

Mr Rayner—Yes. I can hand you some supplementary information on this. What we have noticed in regional centres is that there is a slight narrowing of the price differential between Perth and some regional centres. We have observed that down the southwest corridor that has narrowed, but the further north you go in the state it increases slightly. The price of petrol in any area is normally a product of the volume sold and the amount of competition that prevails in any towns. In those expanding towns of Bunbury and Albany we note—

Senator EGGLESTON—Not so much Albany but Busselton and that area.

Mr Rayner—I do not have data with me on Busselton. I do on Bunbury. I am happy to provide data on Busselton, if you would like that.

Senator EGGLESTON—I just noticed that you mentioned Albany, Geraldton and Kalgoorlie but not Busselton and Bunbury, which are where the largest regional population is. I just wondered what the situation was there, which you can provide on notice of course.

CHAIR—Yes. We are running a little short of time. If you could send it in later that would be useful to the committee. I thank Ms Driscoll and Mr Rayner for their evidence this morning. Thank you very much for coming in.

[9.01 am]

MULLINS, Mr Mike, General Manager, Gull Petroleum

CHAIR—Mr Mullins, do you have an opening statement?

Mr Mullins—Not so much a statement but I would like to say a couple of things. Gull has not made a submission to this inquiry. We are happy to appear here, but we do not have any rehearsed messages to deliver. I am really here to answer questions as best I can.

CHAIR—Could you describe Gull Petroleum and its place in the market in Western Australia a bit more.

Mr Mullins—Gull Petroleum operates the Gull and Peak branded sites in Western Australia, some 100 branded retail sites supplied and controlled directly or through franchise agreements or supply agreements. We operate a fuel terminal, which is one of the few import terminals in WA. I guess folklore and belief within the company is that we were the company that introduced fuel discounting into WA, particularly as a result of the fuel terminal.

CHAIR—What percentage of the market in WA do you have?

Mr Mullins—Excluding the north-west and areas where we do not really compete, it would be something close to 15 per cent.

CHAIR—Do you import fuel directly through to your terminal?

Mr Mullins—We have. Our current supply arrangement is through BP, but prior to that it was fully imported through Singapore.

Senator ABETZ—What has been your experience with FuelWatch? Do you think it is good, bad or indifferent—or you will survive no matter what happens? What is your view and why?

Mr Mullins—The company does not have a view on FuelWatch. It has not made any statements that can be interpreted as being positive or negative about it. Personally, I have only worked in WA when FuelWatch has been in existence. Prior to that I worked for another fuel company with a national role, so I saw its introduction. I think your comment is on the money: it is just there. We see ourselves more as a policy taker than a policy maker. The state government here are much enamoured of it, so we will have no impact on their views. In fact, when I first came here I remember sitting in front of the state government and I was told they were a strong believer in the power of regulation on markets, and if that does not work then that is just an indicator of a need for more regulation. We have not tried to exert any leverage one way or another. We have competed before and we will compete afterwards.

Senator ABETZ—Have you ever fallen foul of FuelWatch compliance by accidentally having a wrong price up or something like that? How is FuelWatch engaged with its enforcement of proceedings?

Mr Mullins—We have a file of correspondence where we have had operator error or there has been a system error where we have not had full compliance with our posted price and price on the boards. Typically this is noted through a member of the public or a competitor who will point it out. One of the enforcement officers will investigate, we will get a letter, and to date Gull has not had a prosecution. I think some other companies have, so I would have to say it is probably fair and reasonable enforcement. It is precise.

Senator ABETZ—The federal legislation as it was drafted does not seem to have a degree of flexibility in relation to that, and I have asked some questions about what happens if somebody accidentally punches through a wrong number. We have been told that the Australian government is now going to be looking at that to see what mechanism can be used, and I was just wondering whether you had been the victim or beneficiary of a particular mechanism in the Western Australian system that does allow for honest mistakes to be treated just as that, honest mistakes.

Mr Mullins—There is zero tolerance for any errors. We are expected to have full and complete compliance. But I think it is fair to say there has not been a heavy hand in any penalties. There has been an understanding of clerical errors and so on. There was one celebrated case of willingly flouting the rules, and that was vigorously pursued.

Senator ABETZ—That is where somebody was prosecuted for reducing their price?

Mr Mullins—Yes, that is right.

Senator ABETZ—It is interesting in the context of consumer protection that we are going to fine somebody for reducing their price, but that is a matter for argument elsewhere. I accept that. With respect to Gull and Peak, do you operate both on the same basis or is Peak used, for example, to attract people into a retail shop? As I understand it, some independent fuel companies in particular seek to use petrol as an attraction to get people into their retail shop and then potentially make a profit there.

Mr Mullins—That is true of all sites, and with the price board and price competition on fuel that is a necessary mode of competition. You simply will not have shop sales if there is a competitor who has a more competitive fuel offer.

Senator ABETZ—Do some rely more on their profits made from the sale of petroleum as opposed to their shop sales? Would you agree with that, or is that not the case in Western Australia?

Mr Mullins—There is a different mix of the revenues and profits, from a truck stop with large fuel volumes to a smaller suburban site. Some will rely more on a workshop. But increasingly it is on the non-fuel income at the retail sites.

Senator ABETZ—That is what I was thinking, that it was the non-fuel.

Mr Mullins—Peak has only recently been acquired by Gull. We are in the process of integrating it. Currently we are still competing with two brands.

Senator ABETZ—Who do you think is the price leader in Western Australia?

Mr Mullins—The leader of price cycles is almost exclusively BP. Before the supermarket venture, particularly with Caltex and Woolworths, it was the three majors, Caltex, Shell and BP.

CHAIR—You were just referring to the fact that the government here is in favour of regulation, but I think you would agree that, particularly as petrol prices are rising, a lot of consumers are concerned about fluctuations in pricing, the cost of fuel and whether they are getting good value for money. Obviously that is quite a strong imperative, because the state government in Western Australia has done something about it through FuelWatch and now the federal government is looking to do it. Could you see any other way of dealing with it, or would you prefer it to be left to the market?

Mr Mullins—I think consumers are best served when there is vigorous competition in the market, so any barriers to competition would be the role of government to address, not that I am tabling any of those. What FuelWatch has done is provide readily available information into fuel prices and held them constant so that that information can support purchases, and I am sure there is a segment of the market that values that. I think research over some years has shown that about a third of consumers are blind to price and even get annoyed, as has happened here with promotions and publicity, with comments that they should be paying more attention to fuel price. A third take an interest and talk about it but will not actually change their practice, and a third actively hunt the smallest bargain they can get. Somewhere in that mix FuelWatch has added some value, and others are probably blissfully unaware that it even exists.

CHAIR—What about this idea that, rather than having a fixed price for fuel, a retailer could go down from that price and that the price that they notified to Fuelwatch could actually be a top cap, or a maximum, and they could take their price down? Do you think that would work under the Fuelwatch system?

Mr Mullins—No, I could not see that working, because you are instantly allowing head room. Why not post a price? If it works, great, and, if it does not, you can always go below. Three dollars is probably good and you can move down from there as you need to. I just do not see how that system could work.

Senator PRATT—In my experience Gull's and Peak's presence in the market does add to competition. Can you comment on the growth of the Coles and Woolworths brands and the impact that is having in some communities as far as reducing competition? How do you see that competition between players within the Western Australian market?

Mr Mullins—To date I have not seen that the supermarkets have reduced competition—far from it. I think rather than Fuelwatch it has been the supermarket presence and other structural changes in the market that has impacted our pricing. The impact on Gull and other independents was significant. There was a big volume loss when they came in.

Senator PRATT—I understand that. Will that change as Coles and Woolworths seek to dominate and undermine other market participants?

Mr Mullins—I cannot answer as to what they are going to do. I have read the arguments that have been put forward by others. One thing to note is that in WA, as I understand it, the two major supermarkets have a lower share of the market. From my somewhat remote observation of other markets, I have seen that in Melbourne, for instance, one of the supermarket chains participates in leading the cycles. That has not happened here, and perhaps this reflects that they have not reached the share of market that they are targeting or that they are comfortable with.

Senator PRATT—There are those that are arguing that, once they have got that significant share of the market, they will relax from being a downward pressure on prices and make the most of that dominance in the market. Is that a view that you would share, that that is what they are seeking to do tactically?

Mr Mullins—I do not know what they are going to do. They are fiercely commercial and, if they do not project or measure a return on their initiatives—and fuel discounting is one of those—I cannot see them pursuing it. They will look for other alternatives.

Senator PRATT—Can you tell me how Fuelwatch influences your own pricing practices, to the extent that you are able to tell us?

Mr Mullins—Administratively it shapes them, because there is only a requirement to set prices once a day. The price process is fed with complete and accurate information about all competitors, as they are now, and the process is then one of anticipating what is an appropriate position for our sites relative to what we anticipate all competitors doing tomorrow. As with other markets, it is vigorous price matching. Over time we have observed that there is the same price cycle, albeit lengthened, same competition in micromarkets and much the same prices.

Senator PRATT—In your experience, is Fuelwatch there to affect retailers' margins?

Mr Mullins—Is it?

Senator PRATT—Or it is there to try to influence them from the point of consumers so that the consumers can make those choices. What other things should government be looking to do to assist consumers in looking at the whole fuel cycle, in the sense that there are things that you are victim to as well in terms of what you buy your fuel for? Are there are other things in the market that can influence fuel prices?

Mr Mullins—The biggest influence on fuel prices remains international forces. All independents and wholesalers are paying international prices for their fuel either through a local supplier or through imports. Movements in those prices dwarf any margin in the cycle, any impact of any other factors, such as the product price or the exchange rate. As to what can be done, the biggest influence I have seen on fuel prices has been the level of competition. Anything government can do to keep the market competitive and support that level of competition will have to have the biggest impact for consumers. It is already viciously competitive. The biggest impact on any particular market is typically the presence of a new player. I would suggest that, rather than just Fuelwatch, there has been the supermarket impact, there has been the exit of Mobil, there has been the sale of those sites and then the sale again to another independent. These companies typically have value or price as one of the key factors they chase. I would suggest that and the presence of multiple players is what shapes the competition in the market. Perhaps look at barriers to the new sites such as councils regulatory regimes. I do not know. I am not here with any prepared recommendations—far from it.

Senator ABETZ—In relation to the price cycle in Western Australia, we understand it is flatter and longer et cetera, but are you able or willing to share with us, given that there might be certain sensitivities surrounding your commercial operations, whether or not when the price is at its lowest you sell significantly more petrol than when it is at its highest?

Mr Mullins—Not that I am aware of. Those are not numbers that I really track. I tend to measure performance over a longer run, so through a cycle or across multiple cycles.

Senator ABETZ—I would like to drill down on this. If you are not aware of it, is that because you have never looked at whether that is the case or not or whether you sell X number of litres per day irrespective of what the price is?

Mr Mullins—In part it reflects the sorts of information systems you will see at a company of our scale, family owned et cetera, but I think there is some truth. I would suggest there is a day-of-the-week effect. Weekends are different from weekdays. Some sites, the way they are positioned, will get more volume in the morning than they will in the afternoon, from people going to work and on their way home. But in aggregate I

am not aware of any difference particularly between the bottom of a cycle and the top. There may well be, but I think there are some leads and lags in the information I see.

Senator ABETZ—If you do not have that, that is fine.

Senator EGGLESTON—When we took evidence in Karratha on Monday from somebody who owned several Caltex sites around the state it was said that the real causative factor, the key determining factor, in the stability of fuel prices in WA and the downward pressure on them was not so much Fuelwatch but the entry of the supermarkets, Woolworths and Coles, into the petrol market. Can you make any observation on that in a general way? Do you think that is more or less important than Fuelwatch was? They both occurred about the same time.

Mr Mullins—I do not have the confidence to attribute the cause to these things. You can say things are correlated, but I have not seen anyone who has stripped away the various factors. I do not quite know how you would do that.

Senator EGGLESTON—It is very difficult.

Mr Mullins—The supermarkets have clearly had a big impact. They have had a large-scale, big presence. They seem to have had a different approach. They have shown a willingness to sell at what would look to be below cost and certainly at a very competitive price for sustained periods. If you look at the bottom of the cycle, they are often the cheaper sites. At least one of them is showing a willingness to exploit the opportunities that FuelWatch offers, and that is to have a nominated set of sites that will be cents below the competitors in their market. Given the rigidities in the FuelWatch system, a rolling wave of these sites that could not be predicted and certainly cannot be matched for the day can have quite an impact. Given that FuelWatch then feeds through to all the media, is picked up somewhere between the weather and the cat up the tree or wherever it slots in, it is a tactic that gets good free promotion. It certainly favours those players that have a larger network of sites over those with a smaller range of sites.

Senator EGGLESTON—So by offering specials, as it were, they are attracting business in each part of the state where they operate?

Mr Mullins—They are seeking the publicity of being amongst the cheapest sites. Achieving that position is something that most of the players have gone for, but given their position I think they are better placed to pursue that tactic over time.

Senator EGGLESTON—What percentage of sites are now operated by Woolworths and Coles in WA?

Mr Mullins—I do not know that off the top of my head. We could provide that.

Senator EGGLESTON—We could find that out, though.

Senator ABETZ—That was provided in the first submission this morning.

Senator EGGLESTON—One of the other points made in Karratha was that the bill provides only for the reporting and monitoring of fuel prices in declared areas. A witness suggested that, if there was going to be a real impact on metropolitan prices on reducing the price of domestic petrol, which is perhaps not what FuelWatch is generally about, but also diesel and LPG, it should capture, monitor and make public the following prices on a daily basis: refiners' sale prices, Australian and overseas; wholesalers' landed cost price; wholesalers' sale price; fuel merchants' sale price; and service station retail price. Would you see any value in that kind of rather complex set of measurements to be taken to come to a point where a price is regarded as fair and reasonable for the public?

Mr Mullins—To whom? No, I do not think so. It is difficult enough to make sense of those sorts of numbers when you have been in the industry working for years, let alone just trying to fill up your tank, I would suggest.

CHAIR—You would have to be a very dedicated shopper to go through that.

Senator EGGLESTON—I just thought I would get the view of another operator on that proposal.

Mr Mullins—The FuelWatch system came in along with terminal gate pricing and others, so the transparency at the wholesale level and then at the retail level exists.

Senator ABETZ—At the end of the day I dare say the consumer is concerned about the price at the bowser, not at the terminal gate or indeed anywhere along the chain. If we had more time I would have asked the department as to why it monitors the price of terminal gate et cetera, because I would assume that the consumer is really only interested in what the bowser price is. That is more of a reflection than a question.

Senator EGGLESTON—That related to the situation in the north-west, in the Pilbara, where fuel is imported by BP from Singapore and they onsell to the other two providers, Caltex and Shell. There seems to be a great uniformity of prices across the areas they supply accordingly, which this person was concerned about.

CHAIR—Mr Mullins, thank you for coming in this morning.

Proceedings suspended from 9.26 am to 9.42 am

FITZPATRICK, Mr Peter, Chief Executive Officer, Motor Trade Association of Western Australia

CHAIR—Would you like to make a statement before we begin?

Mr Fitzpatrick—Yes, thank you. My opening remarks really relate to the existence of FuelWatch, which has now been in Western Australia for some seven and a half years. It was introduced in 2001. I would dispute as a bald statement of fact the notion that somehow the FuelWatch system will give you cheaper fuel prices. In fact, if you wanted to look at the whole FuelWatch spectrum, you would find that there may be some marginal difference at times. Sometimes it is very small, as little as 0.6c or 0.8c a litre overall compared to the national average over the past 12 months. But we must remember also that FuelWatch monitors diesel and LPG and that Western Australia has some of the highest prices when it comes to those particular fuels.

I am looking at the moment at something I pulled down from the website last night. These are the MotorMouth prices for the past 12 months. As to the highest daily average for diesel for the past 12 months, Western Australia was 189.6c when the national average was 185.8c. In other states, for instance, Brisbane—we know that there are reasons for that—was 178c, which is nearly 11c or 12c below the price of diesel in Western Australia. As to other states, we have Melbourne at 185c. The highest daily average for LPG in the past 12 months in Perth was 73.2c, compared with 72c. If you are looking at the whole mix of fuels, you would have to say that FuelWatch certainly has not in any way demonstrated a capacity to lower prices. There has been some small reduction in prices overall if you take it over a longer period for petrol. Some of that has been attributed to FuelWatch. A large proportion of that decline in petrol prices in Perth over that time has probably been due to the introduction of the supermarket chains, particularly Coles, when it came in 2004. We saw a significant drop in prices then.

In terms of transparency, yes, FuelWatch does provide transparency for individuals. You can go on to a web page and you can dial up, as I did this morning just to do a bit of a check for myself, and you can see what the cheapest fuel in town is and the cheapest fuel in all of the regions. The FuelWatch spread covers about 80 per cent of the state. It covers most of the areas where consumers are likely to be in any great number. But it does not provide any transparency, unfortunately, other than at that retail level. It certainly does not do anything at the wholesale level.

I made a presentation to the Sullivan inquiry, a parliamentary inquiry chaired by now independent Dan Sullivan here in Western Australia back in 1999-2000. The recommendations then by the Court government and subsequently implemented by the Gallop government when it was first elected came with a whole package of measures that gave enormous powers to a prices commissioner to not only monitor prices and demand information and documents from oil companies; it actually set a maximum wholesale price. That was linked to a website. You had really a package of measures that were designed to ensure that there was some transparency at the wholesale level and that, if there were some doubts about that transparency, the commissioner had quite extraordinary powers to go in and demand answers and view documents. And in the early days that happened. I was around then. In fact, a Motor Trade Association of Western Australia's bank cheque was used by one of our members to buy fuel at the maximum wholesale price, and the oil company declined to accept that at the terminal. The oil companies were not happy with the level at which the commissioner, or the government, had set the price in the early stages. Subsequently, that company, BP, was prosecuted and some 18 months later was fined \$2,000. Another company, Mobil, was prosecuted, but 18 months later the charge against it was dropped. It was at about that time that Mobil had either left or was exiting the Western Australian market.

We tend to forget when we talk about FuelWatch that sitting behind FuelWatch are a whole raft of legislation and powers that have not been exercised in this state for a long time. After the initial confrontation with the oil companies the government gave ground and allowed them to set the maximum wholesale price, which subsequently became the terminal gate price. If you look at the terminal gate price now on the web on any given day, it is normally several cents a litre, 2c or 3c at least, above the lowest retail price. Why would an independent go to a terminal and buy at the terminal gate price and then have to pay the cartage and then add on their own margin when up the road there is a Coles or a Woolworths that is actually selling it cheaper?

What we really have left as the remnants of FuelWatch, if you want to call it that, is a publicly funded website. It is a good research tool for people like me, because I can go in there and I can check prices around the state. It is a good research tool. It is a very good and transparent source of information for people who are inclined to check a website before they buy their fuel and are prepared for the inconvenience of driving a couple of suburbs away if necessary to get that fuel.

I am about to meet with some young gentlemen from the University of Western Australia Business School who have done a study into FuelWatch. They were concerned about some of the issues that were raised in the ACCC inquiry held last year. They have come to the conclusion, from the respondents they had in this consumer group, involving 5,400 consumers and 36 focus groups, that 70 per cent reported filling up their tank when it was empty and not when the fuel was at the cheapest. That is the sort of anecdotal information that service station operators have been providing me. I am happy to make available a copy of their letter to the committee, because they have done quite a bit of work on this as part of a master's thesis. The results are interesting, because it means that probably about 30 per cent of people actually use FuelWatch to buy cheap fuel.

There is another thing of concern to people such as me, representing primarily the independents in the fuel industry. You will hear contrary evidence, but you really have to look a bit more closely when you hear people saying that this has had no effect on independents. It has. The number of independents has reduced. Whether it is all totally attributable to FuelWatch is hard to say. A number of things have happened that have caused independents to decline. The first thing is that we had the Sites Act, which was enacted in 1980 and subsequently repealed by the parliament. That act limited the number of sites the oil companies could own. But oil companies, as they often do, are able to work around legislation. No matter how clever it is and how hard people like you work to make it bulletproof, they always seem to get around it. They created what is known as the multisite franchise. The multisite franchise was simply a blind trust between an independent and an oil company so that the oil companies simply control that site but one person was regarded as the franchisee. If you want an illustration of that, we actually had that here in Perth in the late 1990s-early 2000, where there were 54 Shell sites in the metropolitan area all independently owned by franchisees that finished up as one single multisite franchise owned by one person who was still deemed to be within the act.

I have been in my job for nine years. I had dark hair when I started it. I can remember that we used to have meetings with the Caltex franchisees and the BP franchisees, who used to come and meet and discuss their issues with their oil company. They have all gone. The BP franchisees have certainly disappeared. There are some Caltex franchisees living on, but most of those are under threat now because of the joint venture between Caltex and Woolworths. In many cases they are competing with their own brand with a higher price against the Caltex Woolworths joint venture. I have extracts of the report done by the ACCC last year. I will not bore you by reading it to you. If you read the report, there is an acknowledgement by the department of consumer protection that there has been a decline in the number of independents even though sometimes their public statements would give rise to the belief that there has not been. In fact, the report states:

DOCEP noted that since 2001 the absolute number of independent, branded independent and independent chain owner sites has decreased in Perth. However, the proportion of sites operated by independent operators and supermarkets has increased.

Supermarkets are hardly independents. There will be some impact on independents in introducing this nationally. That is a major matter of concern. Europe and other places have seen the emergence of supermarket chains, or hypermarkets, as they call them. In Australia they now have typically over 50 per cent of the market operating from 15 per cent of the sites. They make life almost impossible. In terms of their discounts, you can get 20c a litre off if you buy wine at the right place and 4c a litre off with your normal shopping. Independents cannot compete with that. They cannot buy at the right price at the wholesale level because there is no transparency and no real competition there. Even Mr Samuel in his report admitted there was no competition at the wholesale level. He called it—I thought it was a nice phrase—a 'comfortable oligopoly', which to me means something where there is little or no competition. The independents are affected.

The other thing is that the website, as used by the media—and the media alert people to cheaper fuel—has become a free advertisement for the major supermarket chains. If you go onto the website on any given day you will find that most of the leading prices, or the cheapest prices, are the supermarket chains. This morning I went on and found that 39 out of 60 in the top 60 prices were actual supermarket chains. There was not one independent in there, not one. I need to explain that when I am talking about 'independent' I am talking about a site owned by an individual or a franchisee or someone who is in business for themselves. There is a danger in thinking that independents are companies like Peak, United and Gull. They are oil companies. They do a very good job because, as independents oil companies, they provide some level of competition with the major oil companies and the supermarket chains, but they are not what I would call independent business operators. In many cases they operate their own company sites.

If you were listening to the radio this morning or you picked up your morning newspaper here, you will find that the cheapest price today is Coles Express, Clarkson. Underneath that there is Coles Express, Canning Vale, Southern River, Maddington, Westfield and so on. That is a free plug for those sites, and people listen to

that and go and buy their fuel there. The independents struggle to ever get their price. They cannot buy at that price, nor can they operate at that level and nor can they provide the 4c a litre to be able to get themselves in the top bracket and be alerted to the public as being the cheapest in town.

What are the solutions to cheaper prices? I do not think that FuelWatch is necessarily it. There are a lot of things that we could do. We certainly need to do more about a much improved level of competition at the wholesale level. There is the complete irrelevance of the terminal gate price, which now operates in most states. We need to do something about the import parity price. Is the import parity price the best way of being able to provide some sort of international level of pricing for Australia? Why do we have only Singapore as the refinery? There are refineries now in India that produce more petrol than all of the Australian refineries combined and they can do so at a cheaper price. Perhaps we should have a basket of prices that sets the import parity price, and so on.

Do we need a fuel cycle? They are the sorts of measures that perhaps the government should be looking at. If the oil companies tell you the fuel cycle is good for you, then you have to be a bit suspicious, because it is good for them and I am not sure it is good for consumers. I think you will find that because they have the capacity to put up the price by anything up to 14c a litre overnight and control its price on the way down that gives them enormous power. When you get people such as the ACCC saying they are watching the oil companies over a holiday period but at the same time saying that the fuel cycle is good for competition, how can they possibly do anything about the price if an oil company decides three days before a public holiday to bring on a fuel cycle, if it is already condoned by the ACCC in another breath?

I have covered a broad church, and I am sure there will be lots of questions. In summary, yes, you will get transparency at the retail level. Yes, for the battlers of the world who are struggling to fill up their cars at the moment and who are prepared to take the time to go onto a website, yes, they will be able to get cheaper fuel, probably at some inconvenience because they may have to drive a couple of suburbs away. They will not get a cheap Tuesday. That will tend to disappear because the fuel cycle here is quite different from that in the eastern states. But you will not get per se lower prices. The evidence is that at the moment people are moving in droves to LPG and diesel. Under the FuelWatch system here they will pay more.

CHAIR—You are saying that your organisation mostly represents the independent retailers of petrol and you quoted some statistics that independent stations have decreased?

Mr Fitzpatrick—Yes.

CHAIR—Whereas the submission from the Western Australian department of consumer affairs has a chart showing increases in the number of independents, branded independents, which you mentioned, going from 34 to 35; sole independents going from two to six; and independent chains remaining stable. Do you believe those figures are wrong?

Mr Fitzpatrick—It depends on what they call an ‘independent’? If they call a commission agent an independent, that is somebody who sells fuel on an oil company site on a commission basis, they are not independent. If you were talking about the small oil companies as independents, they are not true independents. They are independent oil companies and we welcome their presence in the market. In fact, they are members of mine, so we do support them. We are encouraged by the fact that they are able to stay in the market. But they are not what we used to have in this industry of ours, which was a lot of small business operators who were franchisees. The 54 Shell people have gone. All of the BP franchisees have pretty well gone and most of the Caltex franchisees either have gone or are on the way out because of the supermarket chains. To me, they are the small independents. I would have to check the figures that they have given you as to what they call an independent.

CHAIR—Let me give you the definition of the biggest increase, which was from two to six. These are sites that have no branding and are owned by an independent operator.

Mr Fitzpatrick—From two to six?

CHAIR—Yes.

Senator ABETZ—That is the percentage of the total. During that period where you have had a complete collapse, if I might say, an amalgamation having the same number can potentially allow you to have an increased percentage. That is always the exciting thing about statistics. It is the way you look at them and what it actually tells you.

CHAIR—FuelWatch is not, of course, responsible for the collapse of the major oil—

Mr Fitzpatrick—I think I said to you there were three reasons for it, anyway. The first one is the way in which the oil companies got around the sites act. The second one is the arrival of the supermarket chains. There is a suspicion that FuelWatch, because of the sort of things that I have spoken to you about—namely, the fact that every day you are getting promotion of the largest companies in the land's fuel prices—makes it very hard for the independents to survive. There are some people who are survivors here, and that is probably what you are referring to there, who have pulled back out of a franchise arrangement. They have owned their site and then have gone out and got themselves a supply arrangement with an oil company. There would be a few that fit into that category, but they are few and far between.

CHAIR—You would have to acknowledge that for the customer, for the people buying fuel—and you referred to this yourself—competition is good. You represent independent retailers mostly. They do not like to see the introduction of competition from the supermarket chains. But from the point of view of the consumer, any cheaper fuel is a good development, and they have welcomed in people who will provide a lower price. If independents or anyone else can be the group that provides that cheapest price, it will also get publicity under the FuelWatch scheme. As a business person, how can you object to that?

Mr Fitzpatrick—What I object to there is unfair competition. They cannot buy at a price that enables them to compete. The major supermarket chains operate with the major oil companies and are able to buy at a wholesale price that is far cheaper than what the independents can. If you want to look somewhere to get an example of this, go to Europe and see how much discounting is going on there. The same thing happened there about 10 to 15 years ago. You find how many hypermarket chains give you 4c litre off when you go and buy your groceries there. It does not happen. There is a uniform price right across.

What you are seeing is that the supermarket chains have come in and decimated, in our view, the industry by selling at prices because of their buying power, as they have done with other small businesses, for example, in the liquor industry. If you look right across the board you can see where this has happened. It has happened in this industry. They have 15 per cent of the sites and over 50 per cent of the actual volume of fuel being sold. That makes it very tough if you are a small businessman or businesswoman. When you are sitting around the table with your family of a night-time you have to wonder whether to keep the keys or simply hand them back to the oil company and go and work in the mining industry and get a real life. A lot of these people struggle on margins of 2c, 3c and 4c a litre, a lot of which they give back with cards from the oil company that demands 1.6c or more back as a percentage. It is not just a flat rate but a percentage, and the higher the price the more the oil company gets back. That is not fair competition. The consumers benefit, and I agree with you—

CHAIR—We are getting well away from FuelWatch.

Mr Fitzpatrick—But you raised the question of competition. You have to be careful that you do not simply say that all competition is good per se simply because the consumer gets a good price at the end of the day.

CHAIR—FuelWatch is about giving information to the consumer.

Mr Fitzpatrick—I agree.

CHAIR—Regardless of what is happening at a wholesale level with competition, this FuelWatch is designed for the consumer at the other end. In what way would taking away FuelWatch benefit the independent retailer? I think what you are saying in effect is that the reason for independent retailers decline is the introduction of greater competition at the wholesale level. Nevertheless, we are looking at it from the consumer and FuelWatch point of view. If you took away FuelWatch and took away information from the customer at the end, what sort of impact do you think that would have on independents? Would it be enough to ensure their survival despite the competition?

Mr Fitzpatrick—Probably not. To be honest, probably not. As I said, I am not laying the demise of independents solely at the feet of FuelWatch; I think it is another contributing factor. That is what I have said throughout my evidence today. There is a triple cause for that, if you like, the first being the multi-site franchise operation. The second issue is, of course, the supermarket chains. The third is FuelWatch, on top of that, which provides a free advertising medium for the supermarket chains across most forms of the media.

CHAIR—Do you have any evidence that independents in states other than Western Australia are doing any better because they do not have FuelWatch at the moment?

Mr Fitzpatrick—They have a better opportunity to compete because they can compete on an intraday level, which you cannot do out of FuelWatch. Let us take the situation of a franchisee who looks up the street and sees that there is somebody that is 3c a litre cheaper. You are stuck with your price on that day. You cannot compete.

CHAIR—That applies both ways, of course. If the oil major is 3c a litre dearer—

Mr Fitzpatrick—Yes, but if the oil major is buying at the wholesale level at 3c a litre cheaper than the independent, that makes it pretty tough for the independent.

Senator ABETZ—Firstly, could I ask that we invite the department to take on notice the issue that Mr Fitzpatrick raised, because I think it is a very important one. It concentrated on unleaded petrol only, but if FuelWatch is as dynamic as it is claimed, one would expect it would have had a flow-through effect on all the fuels, such as diesel, LPG, et cetera. Clearly that has not occurred, according to Mr Fitzpatrick. I would be pleased if the committee secretariat invited the department to take that issue on notice and provide us with a response.

CHAIR—The department has provided graphs of all of those different fuel types in its submission. We have LPG prices on page 24.

Senator ABETZ—Yes, we do.

CHAIR—The committee can discuss this at a later stage if we have further written questions to go to the department of consumer affairs.

Senator ABETZ—I do not see diesel mentioned. If there is that differential, it would be interesting to see what their explanation might be.

Mr Fitzpatrick—If you go to the MotorMouth website, which provides an alternative source and probably the only major source on the eastern seaboard for people in the absence of FuelWatch, yesterday, for example, in Perth diesel averaged 189c. Across the nation the average was 185c. That goes through for most of the last 12 months, and the same with LPG. There are some reasons for LPG; I do not want to mislead you here. We have a smaller market than Melbourne, for example, and so there is not as much competition. It is growing thanks to the subsidy, which I think is a very sensible environmental measure. But even so, the LPG prices here are higher than those in other parts of Australia, if you spread that out over 12 months. And yet LPG is on the price board and LPG comes under the surveillance of FuelWatch.

Senator PRATT—In that respect, in relation to LPG and diesel, you need a critical mass of consumers to really make a difference with something like FuelWatch. There might not be as high a level of engagement and therefore not the same level of success as you might get on unleaded petrol.

Senator ABETZ—Probably because there is the same number of people in Western Australia, right?

Senator PRATT—But there are certainly a lot less LPG and diesel—

Senator ABETZ—They are claiming it on petrol but not on LPG, the same number of people.

CHAIR—You are having a debate across the table. We will concentrate on questions.

Mr Fitzpatrick—I have just said to you there is a smaller market here for LPG, but it is a growing market. There are other factors there. We have a duopoly here, too. You have Kleenheat, which is owned by Wesfarmers and BP. You really have only two suppliers of LPG, whereas in Melbourne there are a number of suppliers. You do not have the competition here. I do not think duopolies are healthy, although we are heading for that with supermarket chains. As far as diesel is concerned, I do not think that argument does apply. The amount of diesel we use in this state is extraordinary given the distances we have to travel with mining and the rest of it. To say there is a lack of volume in diesel and therefore that is the cause of it does not hold water.

Senator ABETZ—Is the subsidy you are referring to the conversion subsidy that was introduced by the Howard government? Is that the subsidy you were referring to?

Mr Fitzpatrick—I am sorry?

Senator ABETZ—You referred to a subsidy in relation to LPG. To what are you referring?

Mr Fitzpatrick—What I am referring to there is the conversion subsidy that applies. Western Australia actually led the nation on this with a \$1,000 rebate for people converting. Then the previous government came in over the top with \$2,000, which immediately fully covered the cost of conversion. People can now convert their cars to gas in Western Australia, if they are suitable for conversion—and not all are—at no cost. It is a sensible way forward given that we are becoming increasingly an oil poor country and a gas rich country, and it is environmentally friendly.

Senator EGGLESTON—Mr Fitzpatrick has covered the area that I was most interested in, which was the impact of the supermarkets on the fuel market in Western Australia. I was very interested in what you said

about the European experience, where it would seem from what you have said that a decade ago or thereabouts the supermarkets moved into the fuel industry and have now achieved domination of that industry. Is that the case?

Mr Fitzpatrick—That is the case and in fact they have even gone to a further extreme: they are now offering general insurance through the supermarket chains. They have now gone from two per cent to about 16 per cent of the general insurance market. There is no stopping them once they get a stranglehold. We are really concerned in our industry about the decline in the diversity of ownership of retail fuel sites. In 1980, under the then Fraser government, there was a concern expressed then and the sites acts were implemented. The oil companies have got around that, and those acts have been repealed. The Oilcode that was introduced last year does not go anywhere near far enough to ensure that you are going to have a diversity of ownership. We are heading for a world where there will be two or three major retailers of fuel in this nation, and two of those will be supermarket chains.

Senator EGGLESTON—Going back to Europe again, what has been the impact on prices in the countries where there is a supermarket domination?

Mr Fitzpatrick—There is no fuel cycle there. The prices are higher, but it is very hard to give a comparison of prices across countries because of the taxation measures. I often get inquiries from people who go to New Zealand and see how cheap diesel is there, but the government of New Zealand, in a very sensible move I would have thought, has removed the excise from diesel because it has such a huge impact on supermarket shelf prices and industry and commerce generally. It is very hard to compare and come up with an apples-for-apples comparison. What I would say is that the taxes in Europe tend to be higher on fuel in most parts, certainly in the UK and most parts now of the European Union. The prices are much more consistent. You can drive virtually right across Europe and not see any significant swings in prices. There might be 1c or 2c a litre but in most cases it is pretty much the same.

What you do see—and I can give you firsthand experience on this, having cycled through France last year—is the complete demise in the villages of the little service stations. The farmers and others who live in those little villages that are all conveniently about three or four kilometres apart have to drive on to the freeway and get their fuel at a site operated either by a major oil company or a supermarket chain. At the little service stations that used to be there—and you can see where the pumps used to be—you will find somebody in there repairing a tractor or a car, but that is all that is left. We have already seen that happening in our regional towns and centres. A lot of the service stations that used to serve regional Australia have disappeared. Certainly once you start to get the supermarket chains coming into town in some of the bigger regional centres it leads to the demise of the smaller independents there.

Senator ABETZ—It is sad that you can go on holidays and even cycle but your mind is still on your job and you make all these observations, but that is the way.

Mr Fitzpatrick—It was very obvious. In every town you came to you saw a sort of concrete stand where the pumps used to be. I thought, ‘Here comes Australia in a few years time if we do not do something about it.’ I seriously do believe that what we have seen is really a stranglehold being taken on the market, and that is not good for consumers. Whilst you might get cheaper prices in what you call the competition model, a competition model is flawed, and you will get cheaper prices now but your children will not.

Senator EGGLESTON—Just coming back to the FuelWatch issue in relation to the supermarket issue, the Institute of Public Affairs has criticised the ACCC’s views about FuelWatch on the grounds that the ACCC did not take enough account of the supermarket factor in stabilising prices in Western Australia. From what you are saying, you would probably agree with that point of view?

Mr Fitzpatrick—Yes, I would. I thought the ACCC report last year was a great disappointment. It looked at the fuel cycle, called it an enigma and left it hanging in the air. It looked at the lack of competition at the wholesale level, said it was a comfortable oligopoly, and left that hanging in the air. It certainly did not recommend FuelWatch for national adoption, and in fact there are parts of it where you would say the ACCC recommended against that and almost had a strong view in some areas where it thought that the lack of intraday competition in other areas was something that it would not want to see emulated elsewhere. The sudden change of mind of the ACCC is puzzling for me. It has gone from being the people who were concerned about FuelWatch or in some cases almost opposed to it to embracing it with both hands and recommending it as a model that is going to fix prices across Australia. I think that is probably pushing it too far.

CHAIR—We had fairly extensive questioning about that at Senate estimates. Unless there are other questions, we need to move on.

Senator ABETZ—That is fine.

CHAIR—Thank you, Mr Fitzpatrick, for coming along.

[10.19 am]

MOIR, Mr David, Executive Manager, Member Advocacy, Royal Automobile Club of Western Australia

CHAIR—Welcome, Mr Moir. Do you have any comments about the capacity in which you appear before the committee?

Mr Moir—I am the RAC's public spokesperson on policy matters.

CHAIR—Do you have any opening remarks that you would like to make?

Mr Moir—Yes. The RAC is here in its capacity representing our member base, which is 680,000 members in Western Australia. We are coming from the point of view of consumers. The other interesting thing about the RAC's position is that we do not have any axe to grind about whether Fuelwatch is rolled out nationally or not. We have a FuelWatch system here in WA, and I will give you our views on that in a moment. I guess, unlike a lot of the other people from whom you will be hearing over the course of your inquiry, it is no benefit or loss to the RAC if Fuelwatch is or is not introduced on a national basis, provided of course that we retain the existing scheme in WA.

CHAIR—Do your members support the scheme in Western Australia?

Mr Moir—We have not done a specific poll on our members, but we know from general community support and general use of the FuelWatch scheme, both if you like in an active way and in a passive way, that it is something that has worked well here in WA for consumers.

CHAIR—In saying that it is working well for consumers, do they appreciate the information or do you feel that it has reduced fuel prices? There has been a bit of debate about that.

Mr Moir—We do not have any evidence that the average fuel price in Western Australia has reduced as a result of FuelWatch, but the biggest value that FuelWatch does provide is as a community or consumer education tool. In other words, it encourages good competition by feeding that element of economic theory, which is buyer information and seller information. At the moment, without some scheme such as FuelWatch, which provides locked in proactive information about the range of prices available on any given day, consumers are largely in the dark about what price they should be paying.

CHAIR—What do you think about the idea that the price advertised should be the maximum and that it should be possible to reduce fuel prices during the day?

Mr Moir—We feel that would undermine the whole value of FuelWatch. One of the principal values of FuelWatch is that not only does it tell consumers what the range of prices is on any given day; when they actually find out what the price is in their area, if that is the area that they are interested in, they have some certainty about buying at that price. If the retailers are able to vary their prices down, they have no idea then where the cheapest available price is.

The other concern we have about giving retailers the opportunity to change within the 24-hour cycle is that it takes away the rigour that they have to go through at the moment in setting a price. They can, if they wish, set a fairly high price and then just wait and see what their nearby competitors do and then, if they choose, drop the price. That is what happens in other states and there is nothing inherently wrong with that in a purely unregulated market, but if you are going to have a Fuelwatch system that is intended to inform consumers, you need to have some certainty that, having told them what the price is, they can actually go and buy it at that price.

Senator ABETZ—If most people access it via SMS or the internet and they have a look, if there has to be an instantaneous report, then if people check prices just before they leave the office on their way home they might be able to get a better price. Why should it apply only to the price of petrol? Within the same petrol station, if the person wanted to, they could change the price on every other product by the minute if they so desired. So why petrol?

Mr Moir—Petrol, diesel and LPG are the commodities that are in the frame of reference, both of the government and of the community. There is extreme price sensitivity, as you would be aware, about fuel. During Cyclone Larry we also saw extreme price sensitivity about the price of bananas. But from a long-term point of view, fuel is one of those factors that really push people's buttons as far as what the price is. It was in response to that, we understand, that the government brought in the FuelWatch scheme in Western Australia in 2001. It was also because fuel was one of those commodities where prices were fluctuating on quite a regular

basis, as they do in lots of markets—the Edgeworth cycle, as you have probably heard about. That fluctuation is not something that is peculiar to Australian capital cities; it happens elsewhere as well. That is why we support Fuelwatch or some sort of minimal regulation applying to fuel.

Senator ABETZ—You say the issue is price sensitivity, yet in your own opening statement or, I think, in answer to the first question you acknowledge that FuelWatch has done nothing to actually reduce the price of petrol. It seems as though what we have is a concern about prices. I would agree with you that there is some sensitivity. So, we introduce Fuelwatch and that deals with the psychology of it for the consumers but does not actually reduce the price for the consumer?

Mr Moir—It is important to recognise that in most markets, including all Australian capital cities, on any given day and at any part of the price cycle that happens to be applying there is a span of prices. What FuelWatch does is enable people to buy in the more favourable part of that span of prices; in other words, the bottom half. Having said that, there is no evidence that the average price in Perth over time is significantly lower than the average prices in Melbourne, Sydney and Adelaide, which are the three comparable capital cities. The advantage that consumers in Perth and in other centres in Western Australia have is that they know the size of the span of prices and where they can buy in the lower half of that span. Just focusing on average prices is one indicator, but it is not the whole picture. You have to recognise that, at any part of the fuel cycle in Melbourne, Sydney, Adelaide or Perth on any given day, there can be 10c to 15c a litre difference between the top and the bottom of the cycle. FuelWatch enables people to buy in the bottom half of the cycle, if they so choose.

Senator ABETZ—The evidence seems to be that in Western Australia there is about a 60 per cent recognition within the community that there is such a thing as a price cycle, but it is 81 per cent in eastern states. It would appear, according to the survey information, that the eastern seaboard consumer is more savvy and more aware of these price cycles, and that now seems to have been confirmed, albeit we do not have the detail of it, in a study by the University of Western Australia Business School, if I recall correctly. Some 70 per cent of consumers, when asked when and why they fill up their petrol tank, answer ‘because it is empty’. It is not because of the price. It seems that on the eastern seaboard more consumers, by being more aware of the price cycle, buy at the lower decile of the price cycle, and the vast majority of fuel is in fact bought in that lower section of the price cycle than occurs in Western Australia. I confess that I struggle to see the benefit to the consumer in Western Australia—keeping in mind that, whilst you talk of representing 680,000 members in Western Australia, all your colleague organisations representing similar or more numbers in their various states have expressed concerns about the introduction of Fuelwatch.

Mr Moir—You have raised a number of points there. Some of our fellow clubs in other states have a different view, but NRMA and RACT, the New South Wales and Tasmanian clubs, have a similar view to ours. In terms of what motivates people, when people choose to buy petrol, naturally most people buy when they need to buy fuel because the tank is getting empty. That does not tell you where they go to buy that fuel. You have half the story, not the whole story. Yes, certainly people will decide to buy fuel when the tank is nearly empty, but the advantage that FuelWatch gives them is that they can then on whatever day they choose—whether or not it is the so-called ‘cheap Tuesday’ that happens in other states—buy at the best available price.

Similarly, a consumer in Melbourne, Sydney or Adelaide on so-called cheap Tuesday does not know where the prices are on cheap Tuesday. They know that the cycle is near the bottom but, once again, they have a span of prices. Cheap Tuesday prices could vary from \$1.50 to \$1.65. The poor punter does not know where to go to get fuel at, say, the \$1.50 or \$1.55 mark. They are driving around thinking they have to buy fuel today because it is cheap Tuesday and they drive past a service station that is selling at \$1.65 and they think, ‘It’s cheap Tuesday; I’d better buy it at that price.’ They may be foregoing a 10c per litre saving in doing so.

Senator ABETZ—Is this the only commodity that consumers are concerned about where there are price cycles? That is what I am trying to get my head around. Fruit and vegetables change during the week from shop to shop and, chances are, at even greater rates than the differentials in petrol prices.

Mr Moir—I cannot answer that question. We do not purport to represent grocery shoppers and have no knowledge of those markets, so I cannot comment on that.

Senator ABETZ—I would like to ask you about the impact on independents. We have heard evidence that independents are concerned about FuelWatch. They believe it has been detrimental to them in Western Australia. And your fellow clubs in other states have expressed similar concerns as to the impact that it might have on independents. What is your view?

Mr Moir—We have not seen any evidence that FuelWatch has been a detriment to independent retailers in Western Australia. It has been in place for seven to eight years. If they were struggling before FuelWatch came in and if FuelWatch imposed unreasonable demands or costs on them that made it difficult for them to survive, you would imagine that in the seven to eight years that FuelWatch has been operating a significant number would have left the industry. There is no evidence that we are aware of that the proportion of independents in WA is any different or the rate of decline of independents post-FuelWatch is any different from the rate of decline of independents pre-FuelWatch. In fact, we understand from the Department of Consumer and Employment Protection that in fact the number of independents may have increased slightly during that time.

Senator ABETZ—There has been a 23 per cent reduction in the number of fuel sites in the metropolitan area. If you are an independent in that sort of climate of fewer and fewer retail sites, good luck trying to sell yours, and in those circumstances the percentage number of course is going to increase because you cannot offload them. That is another argument.

Mr Moir—The important thing out of that is to recognise that, before FuelWatch came along—and I think you will find this is the case in other states—the total number of retail sites in all capital cities has been declining, and that has been a trend for the last 20 or 30 years.

Senator ABETZ—There is no doubt about that.

Mr Moir—We cannot see any impact that the introduction of FuelWatch has had on the rate of decline in either the total number of sites or the number of independents that make up that total number. In theory you can say, yes, Fuelwatch will hurt independents. Our view of the practice and experience of FuelWatch in the eight years it has been here is that it does not seem to have caused any harm.

Senator ABETZ—Interestingly, I heard one political leader say that the other side of politics, which happens to be my side of politics, were supportive of big oil, and yet surprisingly for this inquiry at this stage and also in my office I have only received submissions from independents and the small players opposed to FuelWatch and not a single letter from BP, Caltex, et cetera suggesting that we ought to oppose Fuelwatch. Indeed, Caltex is on record as saying it gets its biggest margin in Western Australia. Another big player confirmed to me in Canberra just recently that what Caltex said was right. Of course, Caltex has now been written to by the ACCC, and so I have agreed with this person not to divulge their name into the public arena. But I can assure you that they are a big oil company and they are saying, 'Yes, we get our biggest margins in Western Australia, too. We can confirm that which Caltex said.' It seems to me that the independents are the only ones that seem to be campaigning against Fuelwatch. The big oil companies seem to be very comfortable in not making much noise about it, which would suggest that it might in fact be favouring big oil companies. I just cannot imagine their being quiet and sitting on the sidelines if it were going to have a detrimental impact on them. Call me cynical, but that is my view.

Mr Moir—I share your cynicism, but I think you are seeing the different parts of the industry playing the political game in different ways. The independents come out and make public statements. The larger players either do some lobbying behind closed doors or create scenarios that suggest that Fuelwatch is going to be harmful or put out statements that say, 'We love FuelWatch in WA because we make lots of profits there.' They are playing the same game as the independents but just using a different method.

Senator ABETZ—You are saying in effect that the big oil companies, as in Caltex, which is the only one that is going public, is cynical in saying it makes its biggest margin in Western Australia without any evidence to support it? And the same sort of cynicism is with the independents who say that they are going to be hurt by Fuelwatch? I find that interesting. I hope I am not misinterpreting you, but I would be concerned if that was the view that you were expressing on behalf of your 600,000-plus members.

Mr Moir—The view I am expressing is that a number of players have come out of the woodwork since Fuelwatch has been debated in the national forum who clearly have a political interest or a perceived economic interest one way or the other in Fuelwatch coming into play, and they are playing the public and political game in different ways. Therefore, as the expression says, 'The first casualty in war is the truth', and I think in a lot of cases all sorts of information and misinformation is being put out about Fuelwatch. For example, when you look at the price cycle that applies in Perth and in other capital cities, you are dealing with a set of prices that fluctuates on a daily and a weekly basis and, as we said, even within that you have a span of prices. You have a very noisy scenario in which you are trying to draw some common threads. When you have such a confusion of price information out there and when you have things happening both on a short-term cycle, like a week or a fortnight, but also a long-term cycle where you impose the international market influences on the fuel market, you can just about pick and choose a set of numbers to suit whichever argument

you want to put forward. Particularly if you choose selectively in comparing one week's trading in Perth, compared to one week's trading in Melbourne, if you choose the right week, you can get a set of numbers that match your argument.

Senator ABETZ—The committee has been subjected to that, I feel, from a previous witness.

Mr Moir—That is why the RAC is taking the point of view of long-term price trends, trying to smooth out the differences that will occur perhaps from a week to week or month to month basis. You have to be very wary in this quite confusing industry when you have a lot of noise in terms of prices. You have to step back and take a helicopter view, as it were, or a broader view, of the actual price trends and make sure you are truly comparing apples with apples. Some of the information that I have seen put out is quite misleading in that regard.

Senator ABETZ—I hope that you would consider that possibly of yourself in relation to the number of independents and the information you provided in relation to the raw numbers as opposed to the percentages. Might I suggest that the RAC, whilst it is a great organisation—and let me declare my interest, I am a member of the RACT—is not necessarily squeaky clean in comparison with the others.

Mr Moir—As my opening remark said, we have no axe to grind and no interest whether Fuelwatch applies nationally or not. I am not saying, 'Therefore, trust me', but I am just saying that you will be hearing from a whole lot of people over the next few weeks and you need to run all of the information you get from them through a filter of credibility about where they stand. Naturally, you know that. RAC, from that point of view, has very little to lose or gain by presenting information here today.

Senator PRATT—Is there anything you would change about Western Australia's FuelWatch that you believe would enhance it from a consumer's point of view?

Mr Moir—No, not at the moment. It works fairly well. The uptake by the media is fairly consistent. I mentioned earlier about passive and active users of FuelWatch. Because FuelWatch is available on the evening TV news, on the radio and in the newspaper on a daily basis, you are aware generally of the span of prices available tomorrow or that day. You do not have to be the concerned buyer who actively seeks the information by email or SMS or rings up on a daily basis or when you are about to buy the fuel. If you are interested in the price that you are about to pay for fuel passively, you know generally the price that applies on that day and therefore you think, 'If it's \$1.50 to \$1.65, if I can get it for about \$1.55 I am doing well.' From that point of view, you need to recognise that FuelWatch benefits a lot of people who do not actively use it; it forms part of the background information that consumers need.

Senator PRATT—Thank you for making that point, because that does add something to the debate. You made a statement about the benefit of FuelWatch in smoothing out prices. Can you expand on that in comparing it with those people in the eastern states who are subject to those very volatile week-to-week cycles?

Mr Moir—For a while there FuelWatch did seem to have some effect in changing the pattern of the price cycle, that sawtooth pattern, a rapid rise followed by a slow decline. It did not happen immediately, but after a few years of FuelWatch's operation the pattern changed in two ways. The cycle changed from roughly a seven-day cycle to a variable cycle of 10 to 14 days. The other thing that we have noticed that has happened from time to time is that the peaks and the troughs have not been as exaggerated in Perth compared with other capital cities. Once again, though, you need to be wary about attributing those changes to FuelWatch, because they did not happen in the first few years FuelWatch was in place. It is difficult to know whether FuelWatch made them happen or not. You need to be wary about drawing conclusions between some of the changes that have happened. As our submission shows, if you look at the pattern of prices in Perth in the last few months you see that the fuel cycle has disappeared altogether. FuelWatch has not changed, yet the cycle has disappeared temporarily. It disappeared temporarily after Hurricane Katrina as well, as the prices were moving back down after the very large peak we had a couple of years ago. I do not know whether that is because of FuelWatch.

Senator EGGLESTON—I would like to ask you in a general way about the RAC's view about the growth of the supermarket chains, Woolworths and Coles, into retailing petrol. Do you feel any concern about the impact of these developments on the market and is it something that concerns you in terms of consumers' interests?

Mr Moir—We are watching them very warily. When Coles and Woolworths entered the fuel retailing market, they did so predictably at the low point of the price band on any given day. In other words, they were

price leaders. But their behaviour has dropped back to be part of the pack as far as the other major fuel retailers are concerned. It is worth looking at the big players such as BP, Caltex, Coles, Woolworths and Gull here in Western Australia compared with the independents. The independents do not play the discounting game. They just stay flat at the top of the cycle. The independents chase each other up and down.

Coles and Woolworths, after having entered the market and got people used to shopping with them, firstly, through the discounts and, secondly, the discount was a discount on a reduced price, have moved back up into the middle of the pack. They have also from time to time started to lead the price cycle up—not always but from time to time. Usually it is BP that leads the cycle up on a weekly or fortnightly basis, but occasionally it has been either Coles or Woolworths. Their behaviour now is similar to that of the other major players. The discount vouchers, the usual 4c a litre you get as a grocery shopper, discounts you from an average price and not a lower price. The discount system is still an advantage compared with shopping elsewhere, but it is not as big an advantage as it used to be.

CHAIR—Mr Moir, thank you very much for coming in this morning.

Committee adjourned at 10.45 am