



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON ECONOMICS

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

MONDAY, 14 JULY 2008

KARRATHA

BY AUTHORITY OF THE SENATE



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**SENATE STANDING COMMITTEE ON  
ECONOMICS**

**Monday, 14 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, Heffernan, 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 Cormann, Eggleston, 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

**WITNESSES**

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**Committee met at 1.35 pm**

**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 of the scheme is to empower consumers to make informed decisions and to 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 fuel prices by 2 pm each day and they must sell at their notified prices from 6 am the next day to 6 am the following day. This is the first of several public hearings for this inquiry. Most of the inquiries will be in the capital cities, but we have heard that Fuelwatch may have different impacts in regional centres, so we are keen to hear of the experiences in the Pilbara.

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 the 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.

[1.37 pm]

**ELLSON, Mr Adrian John, Executive Officer, Pilbara Regional Council.**

**CHAIR**—Welcome. Do you wish to make a statement?

**Mr Ellson**—Yes, I do wish to make a statement. Thank you for providing the Pilbara Regional Council with this opportunity to present its views on the proposed national Fuelwatch program. I apologise for the delay in getting a signed copy of our submission to the committee. However, tracking CEOs and councillors around the Pilbara and beyond proves to be problematic at times, despite recent improvements in technology.

The submission from the Pilbara Regional Council before you now has been predominantly developed by me. While I have learned much about how fuels are delivered to the Pilbara, I have yet to get my mind around the complex nature of the pricing of fuels. One comment made to me during the development of this submission was that the cheapest diesel in Australia comes through the port of Dampier. The person who advised me of this is a credible individual and has some knowledge of the port's operations. However, I have to ask myself: if this is so, why do we in the Pilbara pay some of the highest prices for diesel at service station pumps? It just does not add up and we, the public, do not have access to information that can prove or disprove the claim that the cheapest diesel in the country comes through the port of Dampier. However, the port is one of the closest to Asia and, therefore, the claim may be accurate, because freight costs should be lower. I seek leave to table this document.

**CHAIR**—Yes, thank you. Go ahead.

**Mr Ellson**—This missive was written by Mr Graeme Stempel and I have his permission to submit this to you for your consideration. Neither I nor any councillor or the CEO of the Pilbara Regional Council attest to the accuracy of the information contained within the missive. You should also note that I did not ask for the missive to be developed or sent to me. It was sent to me unsolicited, and this type of document is not the first that I have received via email regarding the pricing of fuels.

However, I am tabling this document for three reasons. Firstly, it helps describe the complexity of the pricing of fuel and it supports, indirectly, both the Pilbara Regional Council's submission and inherent supposition—which is that, as all domestic fuels delivered to the Pilbara are supposedly being delivered on BP ships and through BP port terminals, there must be some interesting selling and buying arrangements between Shell, Caltex and BP—and the ACCC's finding that the major refiners have established a comfortable oligopoly that begins with what I call 'buy-sell contracts', which is the way that refiners sell their fuel to satisfy each other's requirements, which then has an impact through the whole distribution chain throughout Australia.

Secondly, the missive demonstrates that the Commonwealth government receives considerable income during the production and sale of fuel; whether it amounts to 46 per cent, I cannot say, but there are a myriad of levies, taxes and charges involved in the process. They include but are not limited to the petroleum resource rent tax, crude oil excise regimes, royalties and GST. For your information, if not already known to you, the rate of tax of the petroleum resource rent tax is 40 per cent of profit, after allowing for cost recovery and the recovery of exploration costs in other areas. I also note that the Commonwealth government is considering proposed bills to remove the current exemption of condensate from crude oil excise, which particularly affects the North West Shelf venture. Simply put, the Commonwealth government has within its power the ability to reduce the cost of domestic fuels by reducing the levies, fees and taxes it places on the production and sale of fuel.

Thirdly, the missive is a reflection of the public's high level of cynicism that the government has no intention to take any real action to reduce the price of fuels. Some folk within the Pilbara Regional Council have stated that they feel I could have used my time better on other activities rather than on appearing before you today. The fact that the Commonwealth government is looking to remove the exemption of condensate from crude oil excise tends to support the views of the cynics.

I put it to you that the proposed national Fuelwatch program is a cop-out on behalf of the Commonwealth government. If the government wants to lower the price of fuels, it has within its power the ability to do so; but it chooses not to. Instead, it has opted to introduce a national Fuelwatch program that has the ability only to marginally affect the price of fuels by highlighting where each service station is at in the fuel price cycle. By the Western Australian Department of Consumer and Employment Protection's own admission, its FuelWatch program has no impact outside of metropolitan areas. The Commonwealth government's proposed



bill, while including in its title 'national Fuelwatch', will only require fuel prices to be watched in designated areas, as is the case already for the WA FuelWatch program.

In its current form, the national Fuelwatch program does not represent value for money, as required by the Commonwealth's Financial Management Accountability Act; hence, it should be pursued no further. However, if the Commonwealth government is true to its intent of stabilising and, if possible, lowering fuel prices, it has to make the pricing of fuel transparent from the beginning. For any Fuelwatch program to be effective, it must capture, monitor and make public the following prices on a daily basis: refiner sale price, both here and overseas; wholesaler landed cost price; wholesaler sale price; fuel merchant sale price; and service station retail price. These prices should also indicate a breakdown between operator costs and government levies and taxes. The whole pricing process must be fully transparent to offset the pricing and marketing strategies of the Australian fuels oligopoly.

The ACCC would have daily visibility of corporate pricing and could react swiftly to any abnormal divergences, of which there have been two in the past 18 months. Furthermore, wholesaler and fuel merchant sale prices should be reflective of sales to industry and to the public. My concern here is that, while the cheapest diesel in Australia may be coming through the port of Dampier, the resource companies are reaping the benefit at the public's expense. If this is the case, something needs to be done to redress this imbalance.

What I am proposing is no different to what the Australian Institute of Petroleum has already advised you, which is that the national Fuelwatch program should be: equitable, in that it applies to all market participants; transparent, in that it leads to improved information for all parties; effective, in that the scheme's design and implementation achieves the government's objectives of increasing consumer information and not increasing prices; and administratively efficient, in that it has low compliance and administration costs. Sale and cost prices are calculated and known for each of the sale and landed prices referred to earlier. All that is required is that they be made publicly available and monitored through some form of government database and website.

The Singapore benchmark should also be available on the website, along with the trend analysis and the movements in the Australian prices compared to the movements of the Singapore benchmark. This level of visibility should quickly stabilise the increasing cost of fuels and possibly see some reductions.

For me, the development of this submission has been interesting. In identifying pricing points, another issue has emerged that, while not strictly within the committee's terms of reference for this inquiry, certainly falls within the committee's jurisdiction. Because of the way fuel is priced and then taxed through the application of GST, residents in the Pilbara and, I suspect, the Kimberley regions are being taxed between 1.5c and 2.5c per litre more than those people living in Perth, Sydney, Melbourne and other metropolitan areas. Whilst this may not seem much, at 50 litres of fuel twice a week for 52 weeks it soon adds up. Madam Chair, I seek leave to table the next document that I have.

**CHAIR**—Which is?

**Mr Ellison**—A newspaper and a tax invoice.

**CHAIR**—I think that perhaps we need to table the tax invoice. The newspaper, I think, we can just distribute.

**Mr Ellison**—It is more the comparison that is going to come up right now. I apologise that there is only one copy of the newspaper, but a copy of a tax invoice is being circulated. The *West Australian's* stated price, which you pay in Perth, is \$1.30. However, the price of the paper here in Karratha is \$2.15, a difference of 85c and, in terms of GST, 7.7c more than in Perth. The excuse for the higher cost of the newspaper is transport costs. The reality for the Pilbara is that the transport costs and the resource industry boom have increased the cost of everything—that is, when you can get the goods or services that you are seeking. They are not always available. However, when you add up all the extra GST being generated because of the higher prices here in the Pilbara, residents in the Pilbara are being taxed on basic goods and services, by my best estimate, an average of \$700 or more each year over and above what the people who live in metropolitan areas pay. It is my understanding that, irrespective of party politics, the intent of the Commonwealth government now is, and previously was, that all people should be taxed equitably based on income. This is now not the case for the Pilbara and the Kimberley, where the residents are being taxed more because of where they live. These same people also receive less Commonwealth and state government support and services than those people residing in metropolitan areas. I hope that you agree that this is an intolerable situation.

One of the real challenges for the Pilbara is the attraction and retention of permanent workforces across all sectors. In particular, the capacity of all tiers of government and small business to attract and retain staff is

being severely tested, and many small businesses and non-government agencies are struggling to remain viable. For example, two non-government organisations, the Employment Directions Network and the Pilbara Community Legal Service, are considering ceasing their services in Newman because of the high cost of operations there. The Indigenous sobering-up committee and associated patrol in Roebourne has had to hand back its grant funding because of the inability to attract and recruit a manager. Madam Chair, I seek leave to table this very last document, which is in fact a Commonwealth research note from 2000-01.

**CHAIR**—Yes.

**Mr Ellison**—This document is a 2000-01 Commonwealth government research note relating to the remote area tax offset, commonly referred to as the zone allowance here in the Pilbara and the zone rebate elsewhere. The research note provides a good overview and history of the zone allowance, and I will not go over the document in detail. However, I have a couple of points to make.

The allowance was last reviewed and increased in 1993, and residents and fly-in fly-out workers are each eligible for an allowance of \$338 in the zone A ordinary area and \$1,173 in the zone A special area. As found by Mr Peter Hicks, the author of the research note, for the allowance to have any real effect in 1999-00 it should have been \$886 for zone A ordinary and \$1,710 for zone A special. What it is really important to draw from this document is that the allowance is in recognition of the disadvantages that taxpayers are subjected to because of uncongenial climatic conditions, isolation and high costs of living in comparison to other areas in Australia.

Not much has changed in this regard. For example, many soon-to-be mums must travel to Perth to have their babies, and the cost of housing in the Pilbara is through the roof and unaffordable to the average resident or would-be resident. More importantly, the zone allowance was created and last reviewed when there was no GST and, at that time, all goods were taxed the same amount irrespective of geographical location. The zone allowance could be doubled today and it might—and I do mean ‘might’—repay or compensate the residents of the Pilbara for the overtaking caused by the GST. This would still not address the issues of the high cost and availability of goods and services and the uncongenial climatic conditions of the north-west.

Although I tend to lean towards the cynic’s view that the Commonwealth government would not do anything that might lead to a diminishing of its income, there is nothing more certain, senators, than that each of you have an obligation to ensure that all people in Australia are treated equitably. Furthermore, you each have the power to redress this issue and collectively you could redress this issue if you so chose. I appreciate the practical challenges associated with managing budgets and government affairs in general and the difficulties associated with realigning the zone allowance to what it should be, but I request the Commonwealth government to amend the existing legislation to: increase the current allowance by a multiple of 2.5—for zone A ordinary, the new allowance would be \$845, a little less than what it should have been in 1999-2000; identify all of the Pilbara and the Kimberley as being in the special zone until the resource boom settles down and stops inflating prices in the region, noting that petroleum mining will soon start occurring in the Kimberley; allow for the payment of the new allowance rates to be backdated to 1 July 2008, as we are only at the start of the financial year; index the zone allowance to some form of remote area price index so that it naturally keeps pace with inflation; and limit payment of the new rates to residents only, who have no relief, and leave payments to fly-in fly-out workers as they are. This last point may seem harsh on fly-in fly-out workers. However, they generally earn better wages than the residents and they are also paid other allowances, including subsidised or free accommodation and meals.

In concluding, I would like to reinforce my earlier comment that the introduction of the national Fuelwatch program in its current form does not represent value for money, as required by the Commonwealth Financial Management and Accountability Act, and hence should be pursued no further. However, if the Commonwealth government is true to its intent of stabilising and, if possible, lowering fuel prices then it has to make the pricing of fuel transparent from the beginning. For any fuel-watch program to be effective it must capture, monitor and make public the following prices on a daily basis: the refiner’s sale price, both here in Australia and overseas; the wholesaler’s landed cost price; the wholesaler’s sale price; the fuel merchant’s sale price; and the service station retail price. On behalf of the residents, non-government organisations and small business of the Pilbara and the Kimberley, the Pilbara Regional Council strongly encourages the government to increase the zone allowance. It is desperately needed, as worker retention is rapidly declining because of the high cost of living in the Pilbara. Thank you for your time.

**CHAIR**—Regardless of the tax conditions and whether the GST is applicable and so on, I think a lot of the emphasis of this bill is about informing consumers on what is happening with retail petrol prices in their area

and giving some certainty to motorists about where they can get petrol at a particular price. It is more about addressing the perception of spikes in petrol prices by individual retailers making profits rather than about the overall taxation and pricing of oil at the source. You are saying that, in a remote area like this, FuelWatch in Western Australia has not made any difference. Is that why you are saying it has no value?

**Mr Ellson**—That is correct. Only about half the petrol stations in the Pilbara are actually subject to the FuelWatch program. Isolated service stations are not required to participate because there is no competition. On 2 July, when our submission was forwarded to you, all the Caltex, BP and Shell service stations in Port Hedland were selling fuel at exactly the same price, and the same has occurred here in Karratha. I do not believe that the FuelWatch program assists anybody up here in any way at all because we do not see the sort of price movement there is in other places. As I said before, the Department of Consumer and Employment Protection openly admits that it only applies to a metropolitan area.

**CHAIR**—So because FuelWatch does not work in remote areas you are saying that it should not be brought in generally?

**Mr Ellson**—If you look at the other information that is on the website of the Department of Consumer and Employment Protection, it is only supposed to be working within the fuel price cycle. It does not try to take advantage of anything else but to let people know which service station is the cheapest within an area, based on the fuel price cycle, and that is all it does. It goes no further than that, and it is a bit of an imposition to put it onto some of the companies on that basis.

**CHAIR**—I do not think that the FuelWatch program is supposed to drive down prices as such; it is more to increase competition so there might be a marginal reduction in price and to let motorists know where the cheaper service stations are.

**Mr Ellson**—I do not think it does that at all. Prices on the website, even within chains like BP, vary by up to 30c ranging across the metropolitan area. So it certainly is not doing anything to generate a better level of competition out in the non-metropolitan areas, and I do not believe from what I have seen that it is doing that inside Perth either.

**Senator EGGLESTON**—I would like to explore the business of the fuel that comes here from Singapore and other places. I had thought for a long time that the fuel that was supplied in the Pilbara only came from Singapore, but you identify a few other places that it could come from too. What is very interesting, I think, about your submission is that you say that BP then on-provides or on-sells the fuel for the other two operators in the Pilbara. That would seem to say that the people in the Pilbara are starting from a point where they are being totally exploited, because we are all told that the higher price up here is due to transport costs from Perth and that is obviously not the case. It would seem that, if that is not the case and the fuel is coming in from countries, particularly Singapore, where it is cheaper to produce and then the petrol companies here are selling it at a common price around at the Pilbara, there is a real issue about fair competition and the interests of consumers in this area, wouldn't you agree?

**Mr Ellson**—I would agree. Before I put pen to paper on this issue, I rang around the fuel merchants, the wholesalers and some of the petrol stations—both those in the independent chains and those that are part of the normal chains—and asked them about how the process actually worked without asking them about anything on cost or anything else like that. I was quite surprised to find that they all conferred with each other that this was the process that was being followed. To me, if we are taking all our fuel in from Asia in this manner I would have thought we should have a lower fuel cost. But I do not have the visibility to say that is one way or another.

**Senator EGGLESTON**—At face value, I would have to agree with you. You say in your submission the fuel comes in from Asia to Geraldton, to Karratha, to Port Hedland and to Broome. So everywhere north, almost, of Perth it would seem that the companies are accessing cheaper fuel but selling it at a higher price.

**Mr Ellson**—It would appear that way. But at the same time I do not know how this parity process works between the oligopolies around the world on the pricing, so I cannot answer the question from that point of view.

**Senator EGGLESTON**—No. Do not worry about the complications. But obviously the oil companies appear to be buying it more cheaply—

**Mr Ellson**—They do.

**Senator EGGLESTON**—but charging a price higher than metropolitan prices here anyway, reading your submission. What is the average price of a litre petrol in the Pilbara?

**Mr Ellson**—At the moment if you were to take it off the FuelWatch website, it is about \$2.01. It might have gone up in the last day or so, because I noticed at the fuel pump it has gone up a few cents in a couple of places.

**Senator EGGLESTON**—What is the average price in the metropolitan area at the moment?

**Mr Ellson**—At this stage, the average price is probably just under \$1.90. I looked at it today. However, if you ring the service stations and then combine the prices on FuelWatch with the prices not on FuelWatch, the average in the Pilbara is about \$2.15.

**Senator EGGLESTON**—That is much more than in Perth really.

**Mr Ellson**—Yes.

**Senator EGGLESTON**—That is an important issue. I know that FuelWatch does not apply everywhere—for instance, where there is a single station and so on. How many service stations are there in the Shire of Roebourne?

**Mr Ellson**—In the entire Shire of Roebourne, we are probably talking about nine.

**Senator EGGLESTON**—Nine stations in the whole shire, which is—

**Mr Ellson**—I can go and confirm that number.

**Senator EGGLESTON**—Karratha, Dampier, Wickham and Pannawonica.

**Mr Ellson**—No. Pannawonica is in the Shire of Ashburton. It is Dampier, Karratha, Wickham, Point Samson, Roebourne and Whim Creek, but Whim Creek no longer sells fuel.

**Senator EGGLESTON**—Is there any variation on a daily basis around the shire?

**Mr Ellson**—Normally, it probably runs at about 2c higher in Wickham than in Karratha. In Point Samson, it is probably about 2c higher than that and, at the Roebourne petrol station, it tends to be a bit higher again.

**Senator EGGLESTON**—Is that because of the extraordinary cost of shipping fuel from Dampier to Wickham and then on to Port Samson?

**Mr Ellson**—I would probably say that it is higher at the stations in Point Samson and Wickham because those stations are independent. It is a BP station at Roebourne and it is situated in Roebourne itself, right on the main road. For whatever reason, the price is always higher there than at the BP here. The station in Roebourne has no competition.

**Senator EGGLESTON**—Excluding independents, how much variation is there between the different company/brand petrol stations that are in competition with each other? How much variation would you see?

**Mr Ellson**—These days it is within parts of a cent.

**Senator EGGLESTON**—In other words, one could infer that there is quite a lot of collusion between these companies on the price of petrol in the Pilbara.

**Mr Ellson**—And because of the fact that all the fuel is coming in in the same way; that could be the explanation for why they have such similar pricing. One of the explanations given was that Caltex and Shell were not necessarily buying all their fuel off BP, but they were buying it from the same refiner and at the same time as a BP ship that was loading it; therefore, one assumes that they would be paying the same price for whatever it is. They said it was fairly common for a processor to sell the fuel as well. This is an area where I still have not got my mind around all the details.

**Senator EGGLESTON**—So they would buy a percentage of the ship's cargo, in other words.

**Mr Ellson**—Not in all cases.

**Senator EGGLESTON**—In some cases?

**Mr Ellson**—In some cases, yes. That is the way it was explained to me.

**Senator EGGLESTON**—This area is part of regional FuelWatch. How does it work here? Are the prices broadcast or are they just on the net?

**Mr Ellson**—They are broadcast every day on the Channel 7 news and the Channel 9 news, but I am not sure whether anyone really watches out for them.

**Senator EGGLESTON**—If they are used to all the prices being the same, I suppose they would not feel there was much point in doing that. You criticise the whole concept of regional FuelWatch as not being very helpful. What about in the south-west, for example, in the Bunbury area, where there are a lot of service stations? I see you have a service station in Busselton. What is your experience of FuelWatch in that regional area, the south-west corner?

**Mr Ellson**—I cannot comment on it from any other point than not being able to see a value in FuelWatch overall; it does not seem to be affecting anything. I looked at the FuelWatch prices for us up here and explored FuelWatch specifically only from our point of view. I looked at it in terms of whether it was actually having an effect, looking at the trend graphs and things like that that they produce down in the metropolitan area. I could see it having no effect; things just seemed to be going exactly the same way as usual.

**Senator EGGLESTON**—You did say in your submission, though, that you had a site in Busselton.

**Senator PRATT**—No. That was a different submission.

**Senator EGGLESTON**—Yes, it was a different submission; I apologise.

**Senator CORMANN**—Are you saying that fuel prices at all stations in the towns of Karratha and Port Hedland are always the same?

**Mr Ellson**—Not always, but once you are in a particular region they are generally—

**Senator CORMANN**—Looking at Karratha and Port Hedland specifically, how often would prices be exactly the same across the three stations in each of those towns?

**Mr Ellson**—Most days.

**Senator CORMANN**—What is it: 90 per cent, 95 per cent, 30 per cent?

**Mr Ellson**—I would say that it would be up around 90 per cent, if not a little more.

**Senator CORMANN**—So it would be between 90 and 100 per cent. What explanation, other than collusion, could there possibly be for the extraordinary coincidence of having the same price?

**Mr Ellson**—The problem is that it could come down to the way they are pricing their fuels. Because that is not visible to me, I cannot say that that they are colluding, because even the ACCC has defined—

**Senator CORMANN**—So they just might have exactly the same cost structure and marketing strategy. But it is pretty extraordinary, isn't it? The way it works is that they have to advise the department of the price the day before and then they have to stick to that same price for 24 hours. That is the way it works, isn't it?

**Mr Ellson**—That is the way it works.

**Senator CORMANN**—The theory is that they would pitch it as low as possible. Of course, that does not seem to be happening, because by some sort of coincidence they end up with the same price. What anecdotal evidence is there across station operators?

**Mr Ellson**—The independents are a little bit frustrated because generally they are paying more. At one of the stations that I rang, which was out at Nullagine, they were actually being charged \$2.06 a litre. That is above the retail price and they are buying from wholesalers or fuel merchants. So there is a little bit of frustration out there when they start to look at it. Some of the argument goes to distance.

**Senator CORMANN**—If your view, what would be the single most effective measure for putting downward pressure on fuel prices in regional areas?

**Mr Ellson**—I would have to say it would be either taking off some of the levy somehow or other or conversely—

**Senator CORMANN**—Excise?

**Mr Ellson**—Again, it is very difficult. I cannot get to see how the pricing mechanism is being worked to be able to argue that case. I can only identify that there are certain points that I can see where we could get a clear price of some description, which is why I have identified this particular process. Right at the moment, just looking at the retail level, there is no impact out here.

**Senator CORMANN**—So FuelWatch targets the part of the supply chain that is the least likely to be impacted by cost?

**Mr Ellson**—That is correct.

**Senator PRATT**—Mr Ellson, thank you. It is good to see you again. I want to ask you about parallels between fuel and other retail consumer products. Clearly, as your example from the *West Australian* highlights, consumers here are paying more for everything. In an environment where you have less competition and much higher prices, it is difficult to use consumer-watchdog tools and competition to drive down prices. Can you point to anything that would better enable these kinds of watchdog mechanisms to better service and be more relevant to rural and regional areas?

**Mr Ellson**—I think the issue for us, when we start to look at where the prices are, is to be able to capture what the true cost of anything is. For us up here, I suppose the issue is that we know we are going to have a transportation cost attached to the stuff because a lot comes up via road. So it is very difficult there. The costs of some goods, such as whitegoods, are only marginally higher. Anything dealing with human input, because of problems with attracting workers and so on, is always very expensive. They are two major issues. The Western Australian Department of Local Government and Regional Development has developed a regional price index. That index puts costs here, on average, about 20 per cent higher than costs in Perth.

**Senator PRATT**—Is that a useful tool in terms of monitoring costs when you see things that fall way above or below that?

**Mr Ellson**—It is a useful tool for us in helping us understand how we should be spending our money, what the likely impact of that is going to be and where it is going to go in the future. But their figures are very much rounded up and they do give a bit of a misleading picture on things, so we have to be a bit careful about that. We are already having discussions. Having just completed a regional tourism plan, for example, the Shire of Roebourne supposedly has 291 tourism businesses, of which 132 are supposedly non-employing businesses. I said to myself, 'What's that?' A non-employing business is a business that has not paid its BAS or submitted a BAS statement for the last five periods. So where the information is coming from is giving misleading information. It has to be transparent from the beginning of the process and right through if we are going to try and achieve anything from it.

**Senator PRATT**—So that has parallels with your argument that the kinds of issues we also need to take stock of are the refiner's price, the wholesaler's price and the fuel merchant's sale price, and that is a parallel where we are really looking to try and drill down to work out where all those cost pressures are coming from. In that sense, watchdog mechanisms might be of some value but not of ultimate value in driving down prices.

**Mr Ellson**—They will only give that value if there is a vertical component to it. Just having the horizontal component on the last items—for example, on fuels, where they are supposedly playing around with only 1c or 2c profit on each of the items—I do not think has much of an impact. I think it is a waste. I think it is an impost on the independents operating in the areas more than on the companies, but I do think it is an impost that that is the case. If it is the major companies that are doing it, one has to ask the question: if they own a whole set of retailers, how are they calculating that this station over here should be 20c higher than that station over there? Why shouldn't they be the same in a metropolitan area?

**CHAIR**—Thank you, Mr Ellson, for coming in this afternoon to appear before this inquiry. We will conclude with that.

**Senator EGGLESTON**—I move that these various documents and the program be accepted as evidence.

**Senator PRATT**—I second that motion.

**CHAIR**—There being no objection, it is so ordered.

[2.14 pm]

**COOPER, Ms Leann, President, Karratha and Districts Chamber of Commerce and Industry**

**CHAIR**—Welcome. Do you have any comment to make on the capacity in which you appear?

**Ms Cooper**—Just to say that I have been a local resident for the past 27 years.

**CHAIR**—Do you have an opening statement or shall we get straight into the questions?

**Ms Cooper**—Straight into questions; that is fine. I do not think I need to say anything that probably has been said before.

**CHAIR**—Is your position on Fuelwatch that you believe it will not be effective in regional areas?

**Ms Cooper**—No, I think it is productive in regional areas. Most people watch it anyway, and, because there is not a great deal of competition, prices are pretty much the same wherever you go. But I think people are aware of it, and they do use it to their benefit around towns. Probably in the larger regional areas, where there are a few retail agencies that they can go to, they would use it.

**CHAIR**—Do you see any effects around the Karratha region? Is it specifically there that people, as you say, do watch the fuel prices and make use of the information?

**Ms Cooper**—They do, and I think the marketing strategies of some of the larger companies, where they give discounts with shopper dockets and things like that, work to the advantage of the local people. I think they take huge advantage of various opportunities where they can.

**CHAIR**—Right. For businesses, obviously, fuel prices are a considerable expense, and they are only heading higher. Does this have any effect specifically on small businesses?

**Ms Cooper**—It would have a great effect on small businesses. For a lot of our businesses around town, say, courier services, the distances the people who work for them—for instance, Australian Air Express—have to travel are not short. They have to deliver products or documents to Wickham, Samson, Roebourne, and all those areas will be greatly affected by the fuel price. So, in the end, everything is going to be affected. The price of everything will increase due to the fuel prices.

**CHAIR**—Exactly.

**Senator EGGLESTON**—You are giving evidence on behalf of the Karratha and Districts Chamber of Commerce and Industry—

**Ms Cooper**—Yes.

**Senator EGGLESTON**—but I would just like to ask you about other regions, if you are able to answer. Is there a common view among chambers of commerce about the operation of FuelWatch in regions like the south-west, around Bunbury, Busselton, Kalgoorlie, Geraldton and so on? Can you give any information on that?

**Ms Cooper**—I can give you a slight indication of that. I do not speak for them, but we are all part of a regional chamber of commerce, as you are probably all aware. There is a lot of communication between all our chambers, and we hook up monthly, and everyone is really quite for FuelWatch for the consumers, mainly, and for business, because everyone is going to be aware of it. We are aware of it in this state anyway, so I think as a whole it is used.

**Senator EGGLESTON**—So you are saying it has a positive effect?

**Ms Cooper**—A positive effect, yes.

**Senator EGGLESTON**—Even though it appears that here in the Pilbara, from what we have heard already, there is not a great deal of variation in the price of fuel?

**Ms Cooper**—No, there is not. I do not know; maybe they do work together. I am not sure about that.

**Senator CORMANN**—What other explanation could there possibly be? Isn't it unusual for people competing with each other and trying to attract as many customers as possible to have exactly the same price for their product? Are there any other industries in Karratha where that would be the experience?

**Ms Cooper**—There probably are industries in Karratha where the prices are the same. To my knowledge, we have only got four fuel companies and a couple of depots, but their prices have always been very close. One has never been greatly cheaper than the other, as far as I know, for fuel.

**Senator CORMANN**—No, but, because they have to lock in the price for the next 24 hours the day before, presumably, if they do not know what the other is going to charge, in theory they would be cautious and try to go as low as they can commercially go—but in practice? How do all the stations providing petrol in Karratha end up with the same price, as somebody told us earlier, in 90 to 100 per cent of cases? How does that happen?

**Ms Cooper**—It is, yes. I would not be able to really and truly answer that.

**Senator CORMANN**—But you can confirm that that is what happens?

**Ms Cooper**—It is what happens, yes. Most of the time there would not be 1c difference. I do not think that the competition is that great that there needs to be.

**Senator CORMANN**—So, other than telling you what the price is, what value do you see in FuelWatch?

**Ms Cooper**—The only other value would be if you shopped at Coles you would get a 4c discount. I know Woolies do another thing, so they would go with dockets more than getting the discount.

**Senator CORMANN**—But that is not an impact of FuelWatch.

**Ms Cooper**—That is right.

**Senator CORMANN**—What benefit does FuelWatch deliver to you other than telling you what the price is, which you could probably find out by other means?

**Ms Cooper**—That is right. The consumer would then look and see where the cheapest fuel was, whether it is—

**Senator CORMANN**—But it is all the same price.

**Ms Cooper**—Yes, that is right.

**Senator CORMANN**—So what value does it deliver to you or to the businesses that are your members?

**Ms Cooper**—It might not.

**Senator CORMANN**—Thank you.

**Senator EGGLESTON**—Going back to the fact that you are part of a regional group: what other regions are there in this regional group of chambers of commerce?

**Ms Cooper**—The regional chamber of commerce covers the whole state. That is Kalgoorlie—

**Senator EGGLESTON**—But are they regional bodies? There is Kalgoorlie.

**Ms Cooper**—South-west, Albany, Narrogin or Esperance and as far up as Broome and Port Hedland.

**Senator EGGLESTON**—They are in the north-west. We have just heard some evidence that the fuel that comes into the north-west and from Geraldton up mostly comes from Singapore, yet prices for fuel here are higher than they are in Perth. The reason we have been told for many years is that that is the cost of transporting the fuel to the north-west. Do you think that the issue of common prices is something that perhaps should be looked at by the ACCC, for example, because it would appear that there is a lack of competition operating between companies here?

**Ms Cooper**—You would have to be careful in saying that, but it could be said. I have been here, as you are aware, for a long time and we have always been more expensive than Perth. It has never been any different, and they have always used the same excuse, of saying that it is transport, for the 27 years I have lived in this town. So to me, that is not the issue; that is not the real reason of why it is so expensive.

**Senator EGGLESTON**—In all that time, the fuel has probably come from Singapore. I am just interested that you, in answer to Senator Cormann's question, perhaps have not expressed the view that people in this town would appreciate a bit of competition between service stations in providing fuel.

**Ms Cooper**—They would, and at one time we used to have it here. We used to have one company in the LIA that would be a lot cheaper in town, and people would drive to the LIA to get their fuel, but that has not happened in the last few years.

**Senator EGGLESTON**—Yet you have had FuelWatch for all this time. That seems to contradict your view that FuelWatch is helpful, doesn't it?

**Ms Cooper**—I think they still talk about it and they still listen to it, so they are taking notice of it even though they are not probably benefiting from it.

**Senator EGGLESTON**—Thank you.



**Senator PRATT**—You have indicated that people have at least a level of interest in FuelWatch here. When transport costs for, I suppose, many businesses are significantly high, do you think that perhaps on a weekly—or sometimes for some businesses—a daily basis, as people fill up they might differentiate between fuel providers to not only get a small marginal benefit but also try and increase the relevance of FuelWatch?

**Ms Cooper**—Some of the small businesses around town I have spoken to regarding fuel have done commercial deals with some of the fuel outlets in town, so they get a small margin of discount on their fuel but a lot find it better just going to the bowsers. I think they have just bitten the bullet. I have spoken to some of the builders around town, and they are saying, ‘We’re just adding it onto our costs of labour,’ and things like that.

We have to have fuel; we have to have large vehicles. Some have downsized their vehicles and some people are still driving around in big vehicles—four-wheel drives. It has not stopped. Even though fuel is going up, it still has not stopped any of them doing their work or finishing their contracts. They still make time to go out and measure. So we are probably lucky in this area that we can afford to do that and afford recreational use. Years ago we all drove to Perth and that cost was quite high in relation to salaries. People still do it. They bite the bullet and all drive to Perth and all fly to Perth, even with the cost of fuel and even though the surcharges on the flights are always going up. People just get on with their lives and do it, because that is what you have to do—there is no use whingeing about it.

**Senator PRATT**—Agreed. I would like you to comment on the overall inflationary impact of fuel within the economy as it passes down the cost line in communities like this one, particularly when you are trying to attract people to the region and maintain the region’s viability in terms of inviting people to stay and live in these communities. Would you like to comment on that?

**Senator COONAN**—The fuel issue will always be there. We should encourage them to stay in this town and build their lives here, and then we have to look at other issues that will entice them. If they come up here their wages have got to be such that everyone can afford to live here. Fuel is part of it but it is not a big deal; people will still just get on with it. The small business person will probably get smaller and the business person will be an owner-operator unless it is a large company. A lot of the small business people that are not running their business well will probably go and the people that are running their business well and watching their cost structures and everything like that will stay, but you will pay a premium for their product or services. They will just build it into the cost. Keeping people here has got to be a lifestyle choice. As a community we have to embrace people to sell what we have got and say why we have been here for so long and are bringing up children here—education and a whole lot of issues.

**CHAIR**—Ms Cooper, FuelWatch has been here in Western Australia for some years now. Do you see any discernible difference between before FuelWatch came in and after it came in in terms of competition between retailers or fuel prices generally?

**Ms Cooper**—No. People talk about it. They watch it on the telly and they listen to it on the radio. But there will be the people that will not go past BP, because it is too much effort to go around the corner and save a few cents. We are probably not worried economically about things like that. It could cost you more, if you have got one of those big four-wheel drives, to go around the corner. Most of the time they will just go where it is convenient to go.

**CHAIR**—Certainly any price difference would not be enough to go between towns, for example?

**Ms Cooper**—No, it would cost you a fortune, because the nearest town is Roebourne, half an hour away.

**CHAIR**—Would you like to add anything more, Ms Cooper?

**Ms Cooper**—I think the people in the north-west have been used to paying a lot for fuel. We travel long distances to go places, but that is a fact of life. It is no use whingeing and worrying about it. You just get on with life in the Pilbara.

**CHAIR**—Thank you for coming in this afternoon.

**Proceedings suspended from 2.29 pm to 2.59 pm**

**ROWE, Mr Wayne, Caltex Franchisee, Karratha**

**CHAIR**—Welcome. Would you like to comment on the capacity in which you appear before the committee today?

**Mr Rowe**—I am a Caltex franchisee. I operate four Caltex franchises across Western Australia—from Busselton up to here.

**CHAIR**—We have your submission. Do you wish to make an opening statement?

**Mr Rowe**—I was trying to demonstrate in my submission that market forces will probably affect the price of fuel more than a fuel-watch scheme will. If you log onto the FuelWatch site you will find that in Kalgoorlie—and, incidentally, there is quite a large independent presence in the marketplace there—fuel is some 16c a litre cheaper than it is in this market. From my perspective as a franchisee operating a site there, I know what the cost of fuel is. We are generally selling fuel with price support from Caltex and we are still sometimes 10c dearer than the supermarkets. That is without their discount of 4c a litre or 6c or 10c or whatever. The price in Kalgoorlie is influenced because there are, I think, four independent pricing people. Do you want me to explain that term?

**CHAIR**—Yes.

**Mr Rowe**—My Kalgoorlie site is an independent franchise, which means I buy the fuel at a wholesale price and resell it and try to make a profit on it—whether it be 2c, 3c, 4c a litre or whatever. There are a couple of Gull sites that would be in the same situation. There are a couple of large reseller operations and the Woolworths and Coles supermarket chains. There are no independent pricing operators in Karratha, as far as I am aware. At my Karratha site, we are a commission agent. That means it is Caltex's fuel and we just sell it on their behalf at their margin for the day. We get a guaranteed margin irrespective of whether it is \$1 a litre or \$5 a litre.

**Senator CORMANN**—How do they set their price?

**Mr Rowe**—I am not privy to that. I guess they just follow the competition.

**Senator CORMANN**—The reason I ask is that we have heard evidence that 90 to 100 per cent of the time the price across all three stations in Karratha is the same.

**Mr Rowe**—No. There would regularly be a difference of 1c or 2c. The point I am making is that in Kalgoorlie, where you have a lot more influence from independents, the price is cheaper. I think the freight to Karratha is about 1c cheaper. I do not know because I do not buy fuel at wholesale here.

**Senator CORMANN**—You have essentially just told us that your price to the market is the price advised by Caltex. So how come most of the time your price is the same as the price charged by all the other stations in Karratha?

**Mr Rowe**—That is incorrect. I have the FuelWatch price here today. Have you got today's price?

**Senator CORMANN**—No, I have not got today's price.

**Mr Rowe**—I will read them out for you. The price for diesel is 202.9 c per litre at BP Karratha, 202.9c at Caltex Karratha and 201.9c at Woolworths Karratha. So Coles and Woolworths are a cent cheaper on diesel and, at the moment, they are a cent cheaper on petrol.

**Senator CORMANN**—That price is advised the day before and it is fixed?

**Mr Rowe**—This is one of the issues I have as an operator: FuelWatch is an imposition on my operation. Caltex marketing intelligence might say that we need to put the price down to match a competitor, but we might not get that price message until 11 o'clock. I do not have a complaint about that but you might have other business to do and you have to log on to FuelWatch to change your price before two o'clock.

**Senator CORMANN**—The two previous witnesses have both told us that, most of the time, the prices in town are the same. In fact, we have a submission that gave us the prices on 2 July. It said that all stations in Karratha sold at the same price—198.9c per litre. Are you saying that is not the case?

**Mr Rowe**—Not always, no.

**Senator CORMANN**—But mostly?

**Mr Rowe**—No, hardly ever, because the supermarkets will always try and be 1c cheaper.

**Senator CORMANN**—There is quite a disparity in the evidence, I have got to say, between you and the two people who gave evidence before you.

**Mr Rowe**—You can log onto this and punch in any date you like. That is the beauty of it; that is market intelligence. You have got a market in Kalgoorlie which is similar to this one; it is a mining town. They are probably a little bit more oversupplied with operators than we are here. We probably have access to 200 or 300 more people per site here, if you did the numbers. But the point I am trying to make is that the supermarkets are dominating this market right now in Karratha—Woolworths and Coles. FuelWatch, to me, is fine, but you need to look at the industry as a whole. The supermarket chains now have—it is in my submission and it is pretty well factual—over 50 per cent of the market. So in Karratha at the minute you have got Caltex Australia setting our board price and you have BP Australia setting BP Australia's board prices, because they are run by BP as a company. In Kalgoorlie you have other influences, and it is not FuelWatch; it is other independents setting the price. It seems to me that Woolworths are going to be cheaper until that competitor has left the market, and then you will have the same issue: up go the prices.

**CHAIR**—Mr Rowe, did you want to make any more—

**Mr Rowe**—Any more opening remarks? Yes, I did. From an operations point of view, I put in my submission that, when the legislation was enacted in Western Australia, I do not think any Caltex dealers had any input into it. It is not very user-friendly and it really is an imposition on our business, the way we have got to adopt it. Did you understand what I was getting at in my submission about the timing?

**CHAIR**—Yes. We have got the opportunity to ask questions later, so we will go into that then.

**Mr Rowe**—The other thing is that we were told, as recently as last week, that Western Australian FuelWatch is now moving to zero tolerance. If you are an independent businessperson, it is quite easy to make a mistake, especially the way we operate, with four remote sites. If you are a metro dealer looking after three sites, it could easily happen.

This happened to me at my Karratha site. Some person or persons unknown came into the site in the early hours of the morning—because there is a tavern up behind us, and they were obviously drunk—and jumbled up all our prices. A gentleman from DOCEP came into the building as a customer and noticed that the prices on the board were a bit askew. He went back and got his camera and took a photo, and we subsequently got a letter with all these photos, asking us to 'please explain'. Now, to me, if the intention of the legislation is entrapment or rubbish like that then that is very hard for me to swallow. That is not my submission, but I just thought it was pertinent to the conversation.

**CHAIR**—Thank you. In that case, where your board was changed by other people, was there any final penalty as a result of that or was there just the inquiry?

**Mr Rowe**—I had to swallow my pride and write a letter saying, 'This is what happened.' A phone call did it, but then the officer insisted on a letter for his files. I suggested to him that the taxpayers' money would have been better spent if the DOCEP guy had come in, introduced himself and said, 'I think you've had a prankster out there,' but he chose to go that other way. The other issue, of course, is that not one customer complained about it, which I found very interesting.

**CHAIR**—All right. I understand that, under the national Fuelwatch, once the operator phones in and says what their price will be, there will be a message back with a receipt for what the price is, so there would not be any confusion about an operator mistakenly putting up a wrong price.

**Mr Rowe**—At the minute, you can do it in two ways here: by phone or online. But it is broader than that because, if you operate in the metro area and you operate a Caltex Woolworths, which is a Woolworths franchise on your own Caltex site, which I know quite a few people do, the person that prices for Woolworths, because of collusion and all those other rules, is not allowed to price the other site. So, straightaway, as a businessperson he is relying on someone else to do the job properly, and, if they make a mistake—the way it is in Western Australia, the fines go up to about \$4,000 after your sixth breach, I think it is. Most of the breaches are just honest mistakes; they can happen. We live in a high-pressure industry. All these sites operate 24 hours a day. Just getting staff is a nightmare without having a lot more regulation to deal with. In the case of my Karratha site, and I have put this in the submission, we sometimes have five people onsite at six o'clock in the morning and they are all battling to cope with the customers they have to serve. That is when FuelWatch deems that I have to do my price change, because it suits some other people. That is one of the flaws that I see in the whole deal.

**CHAIR**—In terms of FuelWatch as such, you are saying that there is a 1c or more difference between pricing even in Karratha. Do you feel that FuelWatch gives your customers the opportunity to compare prices between retail stations to pick the one that is cheapest?

**Mr Rowe**—From my experience, I do not think that is the case. I would have liked to have seen, when they set this up, two entries into the FuelWatch webpage: one for people in the industry and one for customers. The site I operate at Carnarvon is a highway site, which traditionally have a lot of moving traffic. We have a Coles Express right across the road from us. Customers can actually see their price board and our price board. We would regularly be 1c above them—sometimes 2c and sometimes 3c, depending. The reason for that is that we operate a 24-hour a day site. We do food and we employ 15 to 20 people. The Coles Express operation just sells fuel. You can buy a cool drink, but there are no toilets and no facilities, so they sell cheaper, and they only operate for 12 hours a day. So, in answer to your question, people can see that price board but they will still come over the road if they perceive that the offer is better and they do not want to stop twice. A lot of the travelling public do that because they know they can get food and use our toilets.

**CHAIR**—So you are saying that the other marketing factors affect the competition as well as the price—

**Mr Rowe**—As well as the price, yes.

**CHAIR**—and that would be the case under FuelWatch or not.

**Mr Rowe**—It will not change. We are a convenience store. We sell petrol because we have to. We push the convenience business because without that we would all be broke. We do not make any money selling fuel. In a lot of cases you lose money. In my opinion, the people that are chasing the cheaper price now more than likely have a voucher and they will go to Woolworths, Coles or Peak, which does it in some sites. Those people would not even go onto a webpage; they do not even check. So you could have a Woolworths, hypothetically, in your area dearer than you, but they will still go there, because that 4c a litre is perceived to be something really big. Most people do not get out a calculator and say, 'Oh, it's \$2.40 on 60 litres.' They do not think like that. I do not think you are going to change that.

**CHAIR**—One of the arguments put forward by the Australian Competition and Consumer Commission was that currently larger oil companies, and indeed any operator, can subscribe to a service that will tell them in real time what their competitors' fuel prices are all around their area—all around the country, in fact. There is this industry site that is available to them if they subscribe, whereas consumers have no such market information. This is seen as a balancing out so that consumers in fact might get access to some sort of information that enables them to choose in much the same way as the major oil operators, who have access to that information.

**Mr Rowe**—I am not aware of that site that you are talking about, but I know that FuelWatch—and I have put this in my submission—have that market intelligence. The biggest thing with FuelWatch is that you have to post your maximum price, and you cannot go below that—that is it. In the eastern states you still have price cycles within a day, whereas in Perth that does not happen.

**CHAIR**—Isn't that because FuelWatch is in effect?

**Mr Rowe**—No, because you are not allowed to.

**Senator EGGLESTON**—Because of the reporting time, you mean.

**Mr Rowe**—Because of the reporting time.

**CHAIR**—But doesn't it seem to concern customers that fuel prices can change very quickly and that they have no certainty? They can be told that one service station is selling at 2c or 3c lower and by the time they get there it might not be.

**Mr Rowe**—I really could not honestly answer that one, because I am not in that market. That is a metro market. I can just give you my views on that from talking to other dealers about what happens. I am speaking as an independent businessperson. The market in Perth is now such that you might be given price support by Caltex that allows you to sell for \$1.50 a litre, and you are making—I can quote these figures, because I think they are real—a margin of 2.6c a litre on fuel; I think that is about right in the metro market. With fuel approaching \$2 a litre in our area and \$1.70 or \$1.80 in Perth, half your margin goes on a credit card sale. When you have that situation, most of the time the sites are basically selling their fuel with—I do not know what the correct term would be—no real profit margin in there; it is a supported margin. That is the way the industry operates for most of the year.

**CHAIR**—So criticisms that here in Karratha fuel prices are significantly higher than in the metropolitan area and that people are operating with a greater profit in areas like Karratha than in the metropolitan area are not true.

**Mr Rowe**—You could spread that across the whole board. I have a refrigeration mechanic coming to my site this afternoon, and before he even turns up there that is \$150; there is a call-out fee of \$100 and so much for travel. It goes across the whole business spectrum. Fuel just seems to be targeted because it is a popular thing with the media. It is obviously a big cost in everyone's week, but I would think that comparatively Karratha is a very expensive town to do business in—it does not matter what business you are in—whether you are selling fuel or not. With the wages up here, we are paying as junior wages what we paid, probably, as senior wages in the metro. So I do not think that is a fair assumption by people.

**CHAIR**—What is your experience across other areas? You mentioned Kalgoorlie; what about others?

**Mr Rowe**—Kalgoorlie is a very competitive market. This is what I am trying to say. You have to look past FuelWatch and look at the whole industry. There are too many other things in play, and one of them is independent pricing, obviously. By 'independent', I do not mean just a Gull site or Joe Bloggs who has his fuel sign up; it means the ability of different people to set the price. In Karratha, it is obvious that they operate on a smaller differential between their margins. You could go to our Carnarvon site and have a look, and the difference there would only ever be, maybe, a cent or two, but it is a competitive town too and we all have the same issues. Carnarvon has a population base of only 7,000 people, and there are seven fuel outlets there, so there are a thousand people per site. We all have to stay in business; you cannot go broke. When you go to Kalgoorlie, it is completely different because it is ultracompetitive. I think the people who are making it ultracompetitive are Woolworths, but when the independents go it will probably finish up the same as here. That is my take. I do not have anything to substantiate that—only my assumptions from being in the industry.

Busselton is an ultracompetitive town because it is on that south-west corridor and, if you leave Perth and drive to Busselton, you probably do not need to buy fuel until you are halfway back to Perth. Fuel is used a lot to drive people into the convenience stores, because that is the way the industry has gone. Different areas are going to have different drivers. I have been in Busselton since 2004, and I do not think we have ever had what I would call a true retail margin on petrol; we have always been on price support. That means that Caltex has a wholesale price there, you buy it and, if your competitor goes 3c, 4c or 5c under you, Caltex as a franchise is bound to keep you competitive, so they give you price support, providing that you do not sell below a minimum retail price.

**Senator EGGLESTON**—I would like you to encapsulate something you have referred to a few times—that is, the impact of Coles and Woolworths on fuel prices. Do you want to put together a view on what impact they have had on fuel prices across the board in this state and whether they, rather than anything else, are the real drivers of fuel price? That is leading you a bit; I am sorry.

**Mr Rowe**—You do not have to lead me on that one because my observation is definitely that they are driving the price—only, in most markets, if you have Coles as the only other operator in town, they will not drive the price down; if you have Woolworths, they will not drive it down. They are happy to sit 1c below you. One cent; that is it. But, where the two of them go together, they will drive it down 5, 6, 7, 8 or 10c below wholesale—that is, what we assume is the real wholesale. You can log on to the information for Kalgoorlie; you can go back 12 months and you will see exactly what I am talking about.

**Senator EGGLESTON**—So you are saying that, in Kalgoorlie, the Coles and Woolworths effect is actually driving down the prices?

**Mr Rowe**—It drives it down, yes. That is fine now because there is a lot of independent input into the pricing. But once that independent input vanishes—which it will eventually—what will happen then? You will probably see the same as here, where it just evens out and you have 1c or 2c difference, but you have what I would consider to be a true retail margin.

**Senator EGGLESTON**—But are you saying that Coles and Woolworths, even here, are the real setters of the price in a commercial sense?

**Mr Rowe**—I do not think they are driving it too hard here. They are driving it, but they are not driving it as hard as they probably are in another area. That is something you would have to ask them. How could they justify a 14c a litre gap between their Kalgoorlie site and their Karratha site?

**Senator EGGLESTON**—We have heard there might be other factors there. Look at another town other than Karratha—for example, can you comment on Bunbury or Albany?

**Mr Rowe**—Yes, it is the same deal in Albany. I know the Caltex franchisee at Albany quite well. He has the same viewpoint as me, that Coles and Woolworths are driving the price very low. This is great for the public, but you have to understand where that discount is coming from. It is going back onto the price of your fresh goods. It is not a sustainable price. There is a lot of discussion within Australia about the true terminal gate price; we think we know what it is and we know what we are buying at. I could probably give you the price that I am paying in Kalgoorlie today to show you that I am not fluffing. In Kalgoorlie, we are buying diesel for 90c a litre and we are selling it for 95c. Woolworths over there is selling it for 85c a litre, which is a 5c gap; put on top of that your 4c, 10c or whatever promo they are having for the day. That money has to come from somewhere.

**Senator EGGLESTON**—So they are selling below cost—is that what you are inferring?

**Mr Rowe**—Yes, below cost. That is my belief, because there is also a distributor over there called Link Energy, who run their own retail outlet, which I have alluded to in my submission. The resellers do retail to the public, and their prices somewhat mirror where we are at, which I believe is the true free market price where you need to buy fuel at a given price and put a small margin on it to stay in business.

**Senator EGGLESTON**—It is very interesting. I have here a paper from the Institute of Public Affairs which looked at the ACCC's analysis of the Western Australian FuelWatch scheme, which they said produced stability in prices. But they did not, according to the IPA, take into account what they described as the 'Coles effect'. The Institute of Public Affairs suggests that it is really the Coles effect which dominates the market and sets the prices. Would you agree with that point of view?

**Mr Rowe**—Is that Coles, or Coles and Woolworths?

**Senator EGGLESTON**—They refer to them together as the 'Coles effect'.

**Mr Rowe**—They have definitely had a big impact on driving fuel prices down, yes.

**Senator EGGLESTON**—Would you say that is more important than FuelWatch?

**Mr Rowe**—I believe so. They have fostered the 50 per cent of the market out there saying 4c a litre off is what they want. Like I said in my submission, they will queue up three and four minutes to get to a pump, they will walk into a shop and they will queue up and wait to pay. They are happy if there is only one person there. That is probably all they will do in the store. They just go up, they pay for their fuel and then they leave.

**Senator EGGLESTON**—And they get their 4c off.

**Mr Rowe**—They get their 4c, yes—or sometimes it could be 10c. I know that Woolworths in particular do a lot of liquor cross-promotions where they are giving 10c off a litre.

**Senator EGGLESTON**—And they represent 50 per cent of the market in WA now?

**Mr Rowe**—In Australia. Coles and Woolworths have 50 per cent or better of the retail market for fuel.

**Senator EGGLESTON**—Thank you.

**Senator PRATT**—You seem to indicate that, the less competition there is in the local marketplace, the less use Fuelwatch is going to be to consumers because there is not really enough difference to motivate a local price war. Is that something that I could read into your comments? Is that fair?

**Mr Rowe**—No, it wasn't that. In this town particularly, half our customers are tradespeople. They do not pay for the fuel so they do not bother—they have a Caltex card. And there are government departments. People just want to go somewhere where they can pay for their fuel, buy a drink and get some food and whatever they want, and go. This is a really busy, intense town and most people are half aggro in the morning because they are working 12 hours a day and they just want to go somewhere to get looked after. Pricing, to a lot of those people, is not a big issue. That is my perspective, and I am at my store regularly at five o'clock in the morning so I know exactly what is going on.

**Senator PRATT**—How would that compare with the somewhere like Kalgoorlie?

**Mr Rowe**—I think that a lot of people in Kalgoorlie do use vouchers over there. After a while in this industry you can drive past a site any other day and judge whether they are doing better than you or the same.

**Senator PRATT**—Clearly, you would also say that in the long term in towns like Kalgoorlie it is clearly the aim of Coles and Woolies outlets to be driving out the small independents so that that level of competition within a community no longer takes place?

**Mr Rowe**—That would be my suspicion, yes. The independents can even stay there really, because what they are fostering is people visiting their supermarkets. We started making inroads into a lot of Woolworths' business 15 years ago—convenience stores—and they worked out a way to claw it back. They will sell fuel cheaper, put a bit more on the fresh, and the customers will be happy and everyone will win.

**Senator PRATT**—I heard evidence that I just happened to pick up while doorknocking at the weekend. I met a newsagent who told me about how he no longer has the distribution to all the Coles and Woolies magazines in any of the service stations in his local area anymore. As a result of not going through the local distributor, they were going direct to the publishers and probably picking up an extra 12 per cent margin on those products. To make sure that I understand what you were saying before about the shifting cost centres, really those petrol stations are looking to make their profit in other areas in some locations.

**Mr Rowe**—Yes.

**Senator PRATT**—And in other locations where there is less competition in fuel they will concentrate on making their profits through fuel.

**Mr Rowe**—That would not be normal. There are very few markets left in Western Australia where there is a healthy margin on fuel. Probably Carnarvon was the last one to go by the wayside. I am happy to quote numbers to you. When we were paid the fuel grant there was a 2c a litre payment which had no GST and, as a franchisee, my franchisor could not get any of that money. We used to operate on 5½ or 6c retail margins. In Carnarvon if you could get 5c you are doing extremely well. You can say the same about Geraldton. Geraldton is probably a fairly stable market. Unless you go to somewhere way out, like Exmouth, where I think their margins might be a bit exuberant—if that is the right word—extravagant, nowhere else in Western Australia has any big margins in fuel.

**CHAIR**—In your scenario, FuelWatch, it seems, does not do any harm but does not do any good—is that what you are saying?

**Mr Rowe**—That is what I am saying. It does not do much harm. If people choose to, they can logon. But the point I am trying to make is that 50 per cent of the market out there have already made up of their lives that they are going to go to Woolworths and Coles and it does not matter what price they pay. Which suburb do you live in?

**CHAIR**—I live in Adelaide.

**Mr Rowe**—Are you spending any time in Perth?

**CHAIR**—Yes, a little bit.

**Mr Rowe**—Just drive around to a couple of those service stations that have big Caltex, Woolworths or Coles signs and you will see people queued up, and you can drive 500 metres down the road and there might be a little old independent that might be 1c cheaper or the same price. The 4c is the driver.

**CHAIR**—I have taken an extraordinary interest in fuel since I have been on this inquiry. I have noticed—and you do hear it from various sources—that Coles and Woolworths have persuaded people that they have a cheaper version, but do you think that Fuelwatch in a metropolitan area might be different to Fuelwatch in a regional area; that, if they have those dockets, perhaps it is even more important for them to make assessments as to whether they might get fuel cheaper at another retail outlet closer to where they live and that they might choose to do that; that they might be able to make more informed choices?

**Mr Rowe**—I do not think so, no, because it is the same old story. If you live in Scarborough and you are driving home along the Scarborough Beach Road you are not going to divert to the freeway if that did not suit your needs. I just think people have their local shop and if they can get their 4c there they do not even check the price. At our Carnarvon site we regularly have customers come in because we are a Caltex outlet. They fill up with fuel and then put that 4c docket on the counter, and some of them get quite aggro when we say, 'Sorry, we're not Caltex Woolworths.' So they did not even check where they were going to use it; they just saw the sign and came in.

**CHAIR**—Where do you think that direction is headed then? If Fuelwatch is not going to make any difference to that then you are at the mercy of that market, really.

**Mr Rowe**—You could see a situation where 60 per cent or maybe even more of the retail market in Australia is controlled by the supermarkets. You have Caltex as the refiner at the moment but who knows? Refineries are not cheap businesses to run. If they are not running to 90 per cent capacity, they start costing money. I think the interesting time for Australia is going to happen when India starts flooding us with their fuel

once China's insatiable demand slows down. It takes a lot of notice of that parity and how it affects the user—and we all know that anyway—but at the moment Australia does not produce enough fuel and so we are importing it. We ask our franchisor why we cannot get a rebate or a discount on diesel so we can match the competitors and they say, 'We cannot, because we are importing it and it costs so much to import.' I think the outlook for independent fuel operators is pretty bleak. When I first entered the industry there were some 1,200 Caltex franchisees. I think we are down to about 600 now and still dwindling.

**CHAIR**—Mr Rowe, thanks for coming. It was very useful to have the perspective of an operator to kick off this inquiry.

**Mr Rowe**—I am happy to have had some input and I hope it has some bearing on the outcome.

**Committee adjourned at 3.32 pm**