

PETROL A CLOSED SHOP

A COSY OLIGOPOLY CONTROLLING DOMESTIC REFINERIES AND LIMITED OPPORTUNITIES FOR INDEPENDENT OPERATORS TO ENTER THE IMPORTING AND WHOLESALE MARKETS WERE AMONG A NUMBER OF FACTORS PREVENTING FULLY EFFECTIVE COMPETITION IN AUSTRALIA'S UNLEADED PETROL INDUSTRY.

Australians still enjoyed the fourth cheapest unleaded petrol prices among OECD countries.

IN DECEMBER the ACCC reported on its six-month national inquiry into the price of unleaded petrol in Australia. It found that while there was no direct evidence of illegal price fixing, there were problems within the market that may add to the price of unleaded fuel. The inquiry did not extend to diesel or LPG prices.

The report found the price of locally refined or imported unleaded petrol was not based on what it costs to produce, but on international benchmarks. According to refiners which gave evidence during the inquiry, this was due to petrol being an internationally traded commodity. If refiners were able to make more money selling imported petrol than producing it themselves, there would be little incentive for them to produce. Similarly, if motorists were able to buy imported petrol at a better price they would be unlikely to pay more for domestically produced fuel.

However, during the 25 hearings conducted around the country the ACCC was told there was currently little scope for independents to expand their operations, with Shell, Mobil, BP and Caltex supplying around 96 per cent of all unleaded fuel sold in Australia.

A lack of access to suitable import facilities at the ports made it difficult for independent retailers to bring fuel into the country at cheaper prices, meaning many were reduced to sourcing and then reselling unleaded petrol from one of the big four local refiners.

The report found that Australian refineries were more costly to operate than competing refineries in the Asia-Pacific region. The development of new refineries in the region meant Australian producers could soon find themselves under greater price pressure as supplies increased. Addressing the shortage of access to port facilities may allow more overseas fuel to enter the Australian market, placing greater competitive pressure on local producers.

Despite the limited competition available at the wholesale level, Australians still enjoyed the fourth cheapest unleaded petrol prices among Organisation for Economic Cooperation and Development countries.

Petrol retailers were also getting an upper hand over motorists due to the extra pricing information they were able to access through the Informed Sources service. Informed Sources collects and distributes regularly updated information about prices around the country. Retailers subscribed to the service can therefore see in virtual real time when a competitor has put prices up or down, and can adjust theirs accordingly. Where a service station decides to drop its prices, it can monitor Informed Sources to see if its competitors follow, and if they do not can quickly put prices back up.

The ACCC has suggested one way of addressing the information imbalance may be to consider a FuelWatch style system, similar to that used in West Australia (see side box).

In the area of supermarket shopper docketts that typically provide a 4 cent per litre discount on fuel, the inquiry found little evidence that their use by Coles and Woolworths had harmed competition in the market. While there was little doubt the vouchers had helped supermarkets become established in petrol retailing, increasing numbers of motorists had been enjoying the benefits of discounted fuel as a result of their introduction. The inquiry also found there was no evidence the voucher schemes had increased the ongoing rationalising of the number of service station sites, and in many cases the schemes had spurred other sellers to become more competitive, to the benefit of consumers.

The ACCC has made a number of recommendations designed to improve competition in the wholesale, retail and refining of unleaded petrol.

Among the most significant are:

- a more detailed examination of arrangements between petrol companies to buy and sell fuel to each other
- subject to meeting environmental policies governments seek to align Australian fuel standards with appropriate overseas standards
- a comprehensive audit of terminals that are suitable for importing petrol to Australia
- on-going monitoring of the use, leasing and sharing of terminals

The ACCC also recommended some tightening up of the wording of the Trade Practices Act to make it easier to prove understandings between competitors were in fact designed to fix prices and therefore against the law.

In responding to the report, Assistant Treasurer and Minister for Competition Policy and Consumer Affairs Chris Bowen said there was no magic bullet to reducing unleaded fuel prices, but there were longer-term measures that the government would investigate to ensure the market was as competitive as possible and that motorists were getting the best prices possible.

He directed the ACCC to begin formal price monitoring of unleaded petrol and to report every year for the next three years. The Minister and ACCC Chairman Graeme Samuel also agreed that the ACCC would conduct a more detailed examination of the buy-sell arrangements between petrol companies and an audit of terminals suitable for importing refined petrol into Australia. ●



WHAT IS FUEL WATCH?

Since 2001 most West Australian service stations have been required by state law to fix their petrol, diesel and LPG prices for 24 hours, every single day.

The retailers are required to report those prices to the state's monitoring service, known as FuelWatch, by 2 pm every afternoon. By around 4 pm motorists can use a phone service or web page to find out what the price of fuel is going to be the next day. This means if the price of petrol is going to go up the following day, they have between 4 pm and 6 am the next day to fill their cars at the cheaper price.

During the ACCC's inquiry into the price of unleaded petrol, opposing views were presented as to how much benefit the FuelWatch scheme presented. The Western Australian Department of Consumer and Employment Protection, which administers FuelWatch, said the scheme resulted in Perth enjoying the lowest capital city fuel prices in the country. However, petrol companies claimed the limitations on intra-day discounting meant some consumers missed out on dips in the price that would otherwise be possible during the day.

Private price monitoring company, Informed Sources, claimed FuelWatch had increased petrol prices by 1c to 1.5 c per litre.

The ACCC's own economic assessment found price margins in Perth were around 1.9c per litre cheaper compared to eastern capital cities. The ACCC also found the 24-hour rule may work to iron out some of the large fluctuations in weekly price cycles compared with those in other major metropolitan cities.

However, running such a scheme on a national scale would involve significant administrative and compliance costs. The inquiry was also told it may increase the potential for anti-competitive effects in rural and regional parts of Australia as a result of the more concentrated markets in those areas.

The ACCC has recommended a thorough examination of the implications of pursuing a FuelWatch scheme on a national basis. ●