

19th July 2007

Petrol Price Inquiry
Australian Competition and Consumer Commission
GPO Box 520
Melbourne VIC 3001

Re: Supplementary Submission to Petrol Price Inquiry

Dear Sir or Madam:

I am a professor of economics at the University of Melbourne. This letter is a supplement to my earlier submission dated 9th July, 2007. That submission concerned the impact of shopper docketts on petrol pricing. This letter will outline a modest proposal for the provision of consumer information that will assist in enhancing the efficiency of the market as well as reducing economic costs that might be associated with petrol price cycles.

Rationale

Unlike many consumer goods, petrol prices are very volatile. For this reason, consumers face informational issues in searching for the best available price. As a consequence of this, while price sensitive consumers can spend time searching for the best available price, time-poor consumers face constraints in this regard. This, in turn, generates an incentive for petrol retailers to engage in price cycle like behaviour that may give a coordinated appearance (even without direct communication).

The cause of this is the difficulties most consumers have in eliciting information on petrol prices. They literally need to travel around. This is inefficient, wasteful in fuel and causes a strategic reaction from petrol retailers leading to higher and more uncertain prices.

The solution

Today, a technological solution exists that will allow information to be provided to consumers in a useful manner and thereby reduce the uncertainty and potentially higher prices that are characteristics today.

The solution is to require real time provision of petrol prices over the Internet. Then using various technologies, consumers would be able to observe prices at different outlets without having to travel around. This might be even more significant in regional areas where distances between outlets is greater. In this situation, consumers using their mobile phones would be able to judge which towns they might re-fuel at. This would also have a significant impact on fuel costs for trucking firms.

If information were required to be made available, then internet search engines could be utilised to provide a graphical representation of cheap petrol prices. For example, Google Maps allows consumers to add content to maps from the Internet. For example, in the US gasbuddy.com allows you to look at local petrol outlets to see current prices. These can then be displayed on Google Maps. The content could conceivably include prices for all types of petrol and also other offers such as shopper docketts. Specials from petrol convenience stores could also be advertised.

In Western Australia, where price information is readily available, this integration has already occurred. The website -- <http://wapetrol.googlemashups.com/> -- provides local maps which include petrol station prices.

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I note that such information would be available on the Internet but also on many mobile phones. In addition, in the future, it could be integrated with in-car GPS systems. It is important to understand that even a small roll-out of such information will have a big impact on marginal consumer behaviour and hence, petrol prices. There is no requirement that all consumers have access to this information immediately.

While requiring the public provision of information is one approach to this, an alternative could be the following. The government could ask for tenders from existing gatherers of petrol price information (such as Informed Sources). The winner of the tender could then have the right to itself tender with a map or search engine company for the integrated (but free) service. The private information gatherer could then earn revenues from its exclusive license.

Please do not hesitate to contact me if you have any further questions.

Sincerely,

Professor Joshua Gans
Managing Director