Price cycle spins out of control

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SCREWED again, dammit!

Last month I wrote about how we're all being royally gouged by petrol retailers, seemingly uniformly across groupings of suburbs, engaging in 30¢-plus price cycles lasting up to six weeks.

And so it was that petrol stations in my neck of the western suburbs woods, which locals refer bitterly to as the Western Suburbs Pricing Corridor (dubbed the Western Suburbs Pricing *Cartel* by FUELtrac), had, at the end of the past couple of interminable price cycles, jacked up prices by more than 30¢.

Late last week, I clocked prices at my local Woolworths Caltex had come down by 17¢ and so, with an empty tank, swung in and put $25 in to tide me over until the price came down the full whack.

But it didn't. Within no more than two days, the price was back up to 136.9¢ for RULP and 160.9¢ for 98 octane thereby abruptly going from a near six week cycle of 30¢ to about a four week cycle and 17¢.

So, does the Brisbane Terminal Gate Price reflect a steep rise in wholesale prices between now and last month that would justify this? Of course not.

A month ago according to the BTGP graph – easily accessible at www.aip.com.au/pricing/tgp/brisbane.htm – the average price for RULP was about 116¢. Yesterday it was just above 117¢.

Since I last wrote about this aggravating financial abuse of consumers, the Australian Competition and Consumer Commission released its Report on the Brisbane Petrol Market.

It found Brisbane motorists paid, on average, 3.3¢ per litre more than the other four largest cities in Australia and that Brisbane suffers from a lack of retail players – competition.

Well, we already knew about the price differential because RACQ, FUELtrac and others have been banging on about that for some time. As for the lack of competition, as has been said before, it's more than a bit rich for the ACCC to be lamenting the lack of it when it: (a) is the watchdog responsible for putting the bite on corporate takeovers or other activities that result in anti-competitive concentrations of ownership; and (b) failed to oppose Puma Energy buying up Queensland Independents Matilda, Neumanns and Choice Petroleum, thereby further distilling the market here and lending a lie to its remit.

But, as well, the report is pretty well silent on the scourge of the price cycle and any time ACCC head Rod Sims – probably most recently at a Senate Estimates hearing last night – is asked about it, he shrugs his shoulders.

Happily, I can assist him a bit with this as a helpful reader disabused my contention that these petrol price cycles – which are of varying length in our capital cities – are unique to Australia. I'm told they occur in a number of countries or regions in countries, including Canada, the US and Europe. Moreover, they bear a resemblance to the price cycle theories developed by an Irish economist called Francis Edgeworth early in the 20th century.

Quite a few economists have turned their minds to whether the Edgeworth price cycle – which according to one of them, Michael Noel, in a March 2011 paper, is "an asymmetric pattern of prices that result from a dynamic pricing equilibrium among competing oligopolists" – fits with the pricing behaviour of fuel retailers here and elsewhere.

It's for the ACCC to research this but I did note that, according to Noel, "A single cycle is often a week or two long with amplitude up to about 10 per cent of the price."

To which I and my fellow Aussie motorists say, "Hahaha – try six weeks and up to around 25 per cent."

It's time the shoulder shrugging over the price cycles stopped and some decent research was applied to it. And there must be absolutely no further concentration of the market and this includes the proposed takeover by BP of Woolworths service stations currently under review.