

FACTS ABOUT DIESEL PRICES

The price of diesel in Australia is dependent on international market prices, not production costs

- ⇒ Crude oil, diesel and petrol are different products and are bought and sold in their own markets.
- ⇒ Each market is regionally based and there are linkages and transactions between regional markets.
- ⇒ Diesel prices in regional markets reflect the supply and demand balance in each market.
- ⇒ So, diesel prices (like most commodity prices) are determined by market forces, not by the cost to produce it.
- ⇒ Australia's regional market is the Asia-Pacific market.
- ⇒ Diesel is the dominant fuel in the Asian region and in recent years there has been a significant increase in demand, particularly as a result of the economic and industrial growth in China and India; Australian demand for diesel has also grown strongly, particularly on the back of the mining and commodity boom.
- ⇒ Regional diesel supply has not kept pace with this demand growth and, as a result, diesel prices have increased in the region including Australia.
- ⇒ The Singapore price of diesel (Gasoil 10ppm sulfur) is the key diesel pricing benchmark for Australia.

Australian refineries must price their output to be competitive with Asian imports

- ⇒ To meet Australian diesel demand, over 40% of diesel is currently imported - mostly from Singapore.
- ⇒ Australian refiners must price diesel to be competitive with imports (ie. import parity) from the Asian region; if diesel prices were lower here, this would provide an incentive to Australian refiners to export diesel to Asia.
- ⇒ Growing demand for diesel in Australia will continue to be largely met by imports in the future, further strengthening the price relationship with Asian diesel prices.
- ⇒ The Australian wholesale price for diesel (called Terminal Gate Prices or TGPs) is closely linked to the Singapore price of diesel – not crude oil prices.
- ⇒ The Singapore benchmark price of diesel plus shipping costs and Australian taxes represents almost the entire wholesale price of diesel - around 95% of TGPs.
- ⇒ The remaining 5% of TGPs reflect insurance, local wharfage and terminal costs and a small wholesale marketing margin (where competitively possible).
- ⇒ Generally, there is a short time lag of 1-2 weeks between changes in Singapore prices and changes in Australian TGPs, and this lag operates when prices are both rising and falling.
- ⇒ Daily TGP data are published by all wholesale suppliers (AIP website has average TGPs - www.aip.com.au).

Most diesel is sold in bulk through commercial contracts, not through retail outlets

- ⇒ TGPs are typically around 95% of the diesel pump price. Apart from TGP, pump prices in Australia also reflect land transport costs, marketing and administration costs, and the costs of running service stations like wages, rent and utilities. The ability to cover these costs depends on local area competition.
- ⇒ Most diesel is sold in bulk to commercial and industrial customers (eg. in mining, transport and farming) on long term contract; such contracts are subject to rigorous competition under regular market tenders.
- ⇒ There is no retail discounting cycle (ie. sawtooth pattern) for diesel, as only 25% of diesel is sold through retail outlets and most of this goes to contract or fuel card customers rather than private motorists.
- ⇒ The major oil companies only set retail prices at a limited number of service stations across Australia (around 8%) and these are largely in metropolitan areas.

Low sulfur diesel is a high quality fuel and delivers more kilometers per litre than petrol

- ⇒ To meet the low sulfur fuel standard for Australian diesel (10ppm sulfur from 1 January 2009) requires extensive processing in the refinery to remove the sulfur from the crude oil, similar to that required for low sulfur petrol.
- ⇒ Tighter diesel fuel standards are delivering dramatic reductions in vehicle emissions (including particulate emissions and black smoke), providing significant air quality improvements in major cities and towns.
- ⇒ Because diesel has a higher energy content than petrol, it delivers more kilometres for each litre of fuel consumed (particularly when combined with new efficient diesel engines).

Australia's highly competitive market has delivered low diesel prices by world standards

- ⇒ When comparing Australian diesel prices to other countries, allowance must be made for different government taxes and tax rates and for any subsidies and road user charges (eg. in New Zealand) that don't apply here.
- ⇒ Vigorous competition in Australia also means that oil company profits are typically a very small proportion of the retail price (eg. average oil company profit over the last decade is around 1.6 cents per litre of fuel sold).