

FACTS ABOUT THE AUSTRALIAN RETAIL FUELS MARKET & PRICES

RETAIL PRICES & INFLUENCES

The most important influences on retail fuel prices in Australia are:

- ⇒ the international price of refined fuel
- ⇒ the exchange rate of the Australian dollar against the US dollar
- ⇒ government taxes
- ⇒ wholesale and retail costs and margin
- ⇒ local area competition between fuel retailers
- ⇒ the well-established weekly retail price cycle in many metropolitan areas affecting day-to-day prices
- ⇒ other local area (eg. customer base) and service station business factors (eg. product offerings)

Retail prices are closely linked to the international (Singapore) price of refined fuel, which is the largest component of the retail price, according to the ACCC.

- ⇒ Australian fuel prices are based on the regional benchmark fuel (not oil) prices for the Asia-Pacific region—that is, the Singapore prices for petrol (eg. MOPS95) and diesel (Gasoil 10ppm sulfur).
- ⇒ According to the ACCC, Singapore fuel prices are the relevant Australian benchmark prices because Singapore is the market that the eastern hemisphere refers to, it is the closest major refining and marketing centre and is a common source of imported petrol to Australia.
 - To meet Australian fuel demand, around 25% of fuel is imported, mainly from Singapore.
- ⇒ Therefore, Australian retail prices are influenced by international supply and demand pressures.
- ⇒ See AIP Factsheets on the 'International' and 'Wholesale' markets for more details on the links between International and Australian fuel prices and on the impact of the exchange rate.

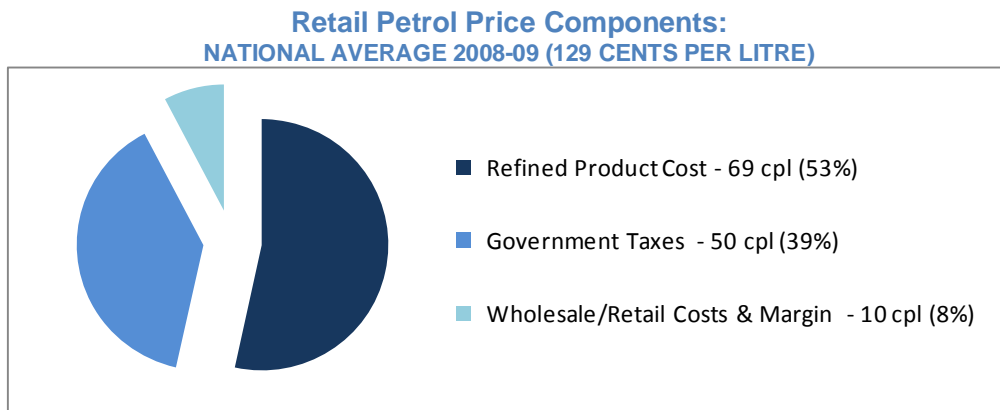
Government taxes comprise a fixed excise rate of 38.143 cents per litre on petrol and diesel plus GST of 10 per cent on the final retail price (less any state subsidies).

- ⇒ In 2008-09, the tax component (GST and fuel excise) of the retail price of petrol averaged about 39 per cent or 50 cents per litre. Payments to the Australian Government in 2008 (from fuel excise, GST on fuels and income tax) by AIP member companies were \$19.3 billion.

Wholesale and retail costs and margin represent a small part of the retail fuel price and include:

- ⇒ **wholesale costs and margin, comprising:**
 - importing costs to land fuel into Australia (other than the 'international price of refined fuel').
 - These costs include the quality premium for specific Australian and State fuel standards, freight, wharfage, insurance and loss and other charges.
 - These accounted for 5-6 cents per litre for petrol in recent years, according to ACCC.
 - **The international price of refined fuel plus 'importing costs' is called the 'Import Parity Price' or the 'refined product cost' to Australia (see Chart over).**
 - wholesaling costs and margin to store and handle the fuel once it arrives in Australia and prior to its distribution to the domestic market.
 - These include terminal capital and operating costs and a small wholesale margin or profit where competitively possible.
 - "Wholesale margins and other costs account for around 5 cents per litre" (ACCC).
 - The ACCC estimates that over the last 7 years *"after deducting those expenses the wholesale sector made a net loss on average."*
- ⇒ **retail costs and margin to get the fuel from the refinery/terminal to the bowser.**
 - These include road freight costs, admin and marketing costs, and service station running costs like wages, rent and utilities and a retail profit margin.
 - There is only a small proportion of the retail or pump price (around 5% on average) which is received by fuel retailers to cover these costs.

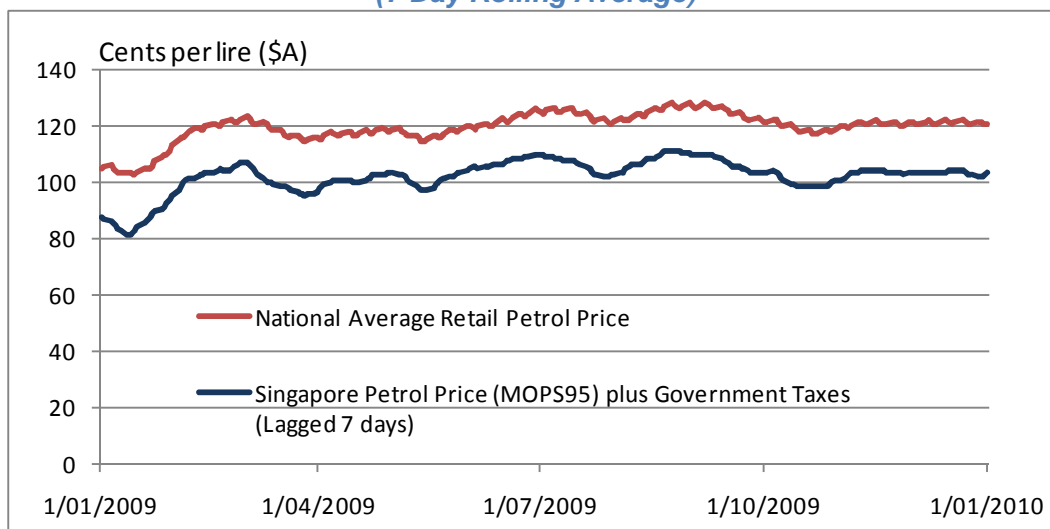
According to the ACCC, “petrol industry costs are dominated by refined international benchmark prices and taxes”, as shown in the chart below.



The Chart below shows the relationship between recent movements in national average petrol retail prices and International (Singapore) petrol prices.

“Movements in the international price of refined petrol over the past two years have generally been passed on to Australian motorists (both up and down)”, according to the ACCC.

**Comparison of the Singapore Petrol Prices & Australian Retail Petrol Prices: 2009
(7 Day Rolling Average)**



There is a lag between movements in international refined fuel prices and Australian retail prices.

⇒ According to the ACCC: “The length of the lag depends on factors such as the speed with which products move through the supply chain, the dates on which purchases are made, the speed of the international price movement and the contractual arrangements. Consequently, short-term comparisons at a particular point in time can be misleading, especially if different points in the price cycle are chosen. Where possible, comparisons between international and local prices should be viewed over longer periods.”

RETAIL PRICE CYCLES

Retail prices in many metropolitan areas typically follow a discounting cycle (a saw tooth pattern).

- ⇒ Customers in many capital cities will be familiar with these discounting cycles, which have typically occurred on a weekly basis (except in WA).
- ⇒ Highly visible price boards allow customers to take advantage of low prices and competitors to observe price discounting.
- ⇒ Petrol prices fall steadily due to service station operators aggressively discounting to attract customers. However, maximum discounts can only be sustained for short periods before prices are restored. This is typified by a lift in prices before the discounting cycle starts again.

“Many motorists have been able to take advantage of the price cycle to purchase fuel on the cheaper days of the week”, according to the ACCC.

- ⇒ This is demonstrated by more petrol being sold on the cheaper days, according to the ACCC. The ACCC have estimated that 60% of petrol sales are below the average price of the cycle.
- ⇒ The ACCC and other organisations provide advice to consumers on low price days of the week.

Local market factors and competition drives the discounting cycle.

- ⇒ According to the ACCC, *“price cycles do not occur in the international benchmark prices; they are due to the pricing policies employed by the local petrol companies in the face of local competition”*.
- ⇒ The presence of a discounting cycle is a clear demonstration of vigorous competition.
- ⇒ For example, the ACCC estimates that *“at the bottom of the cycle, prices can be below posted TGPs (ie. indicative wholesale prices)”*.

Petrol prices do not increase because of long weekends or public holidays.

- ⇒ ACCC analysis clearly shows that *“price movements around public holidays have been similar to price movements at other times”*.

WHO SETS RETAIL PRICES

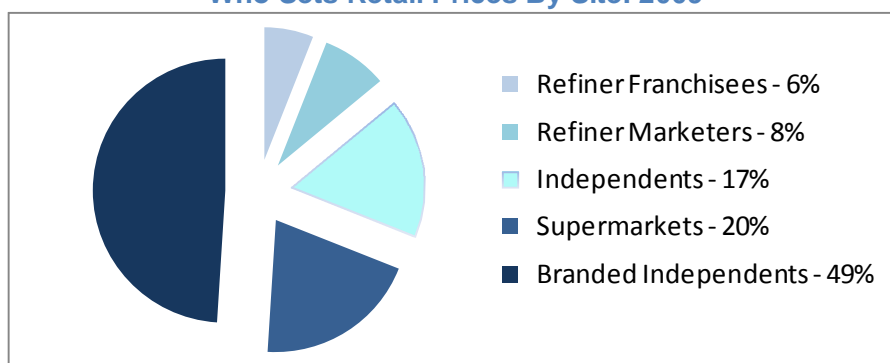
Price levels vary between service station operators.

- ⇒ *“The price charged at an individual site can vary due to the location, quality or size of the site, the other products available at the site, the number and identity of the other service stations in the area and the pricing policies of the operators”, according to the ACCC.*

According to ACCC analysis:

- ⇒ The supermarket and independents (including branded independents) operate and set the prices at around 86% of retail sites across Australia.
- ⇒ The major oil companies operating in the retail market (BP, Caltex and Mobil) now directly operate and set the prices at only 8% of retail sites across Australia.

Who Sets Retail Prices By Site: 2009



SOURCE: ACCC

CITY VERSUS COUNTRY PRICES

Prices can vary greatly between city and regional towns and areas due to differing competitive and economic characteristics.

Retail prices and margins in regional areas are also typically higher compared with major capital cities. This is due to:

- ⇒ Lower fuel volumes and convenience store sales over which to recover service station operating costs.
 - Regional service stations typically see 1 tanker per 2-3 weeks versus 1 tanker per day at some city sites. The average customer base per service station is around 2,000 people in regional areas (and well below in many towns) whereas metro/city sites have a customer base of around 4,000 to 5,000.
 - As a result, *“the ACCC has found that if a typical country service station is selling around half the volume of a typical city service station then it needs to sell petrol at around 4 cents per litre more to earn the same return on sales”*.
- ⇒ Distance (and thereby freight costs) is also important, and usually the further the service station location is from a refinery or major terminal, the higher the retail price. On average, freight is typically around 1.5 to 4 cents per litre greater for country than city delivery.
- ⇒ Storage and handling costs may be significant for some country areas where fuel must be stored in depots and double-handled, rather than being delivered directly from coastal terminals.
- ⇒ The general absence of the weekly discounting cycle in regional/country areas means that regional prices are higher than fully discounted or average city prices.

Because of these factors, the ACCC estimates that *“prices in regional centres and country towns have been about 6 cents per litre higher, on average, than prices in the five largest cities over the past 7 years”*.

Competitive forces and costs also vary greatly between country towns, so that pump prices do not just reflect volume, freight and handling differences.

According to the ACCC, price changes in regional centres and country towns also tend to lag behind price changes in capital cities, reflecting the extra time it takes for stocks to move through the supply chain in regional centres and country towns.

In regional areas, retail prices are largely set by independent owner/operators, including those who sell fuel supplied by one of the major brands under licence.

RETAIL FUELS MARKET & TRENDS

Retail fuel prices apply to almost half of the fuel sold in Australia.

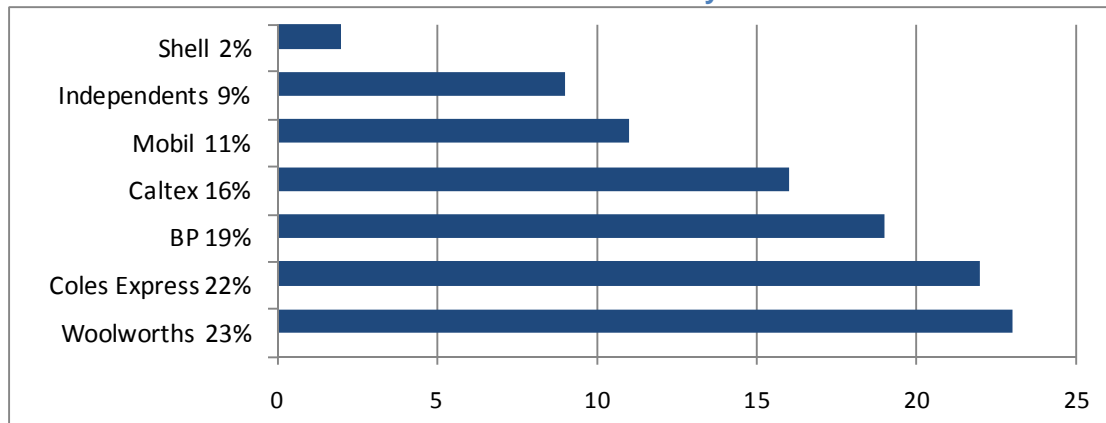
The retail fuel market is highly competitive (not a concentrated market) and has been undergoing significant change for the past three decades.

ACCC analysis shows that *“from 2002–03 to 2008–09 the most significant changes in market shares of retail sales by brand have been the increased market shares of the supermarkets”*.

- ⇒ Over half of retail petrol volumes are sold through sites operated by supermarket alliances or unbranded independents – see Chart below.

“While the refiner–marketers (ie. major oil companies) brand names appear on the majority of petrol retail sites, it is important to note that mostly the businesses are actually owned and/or operated by supermarkets, independent retailers, franchisees, or commission agents”, according to the ACCC.

Market Shares: Petrol Volume Sold by Brand 2008-09



SOURCE: ACCC

The most significant trend in the retail fuels sector has been the reduction in the number of retail service station sites and the move to higher volume outlets located in busy areas and on highways where there is greater traffic volume, thus reaping economies of scale.

- ⇒ The number of retail sites has reduced from around 20,000 sites in 1970 to around 5,500 now.
- ⇒ According to the ACCC, Coles and Woolworths presently operate around 1200 retail sites, which is around 20 per cent of all service stations.
- ⇒ However, the ACCC has concluded that consolidation of retail sites has slowed significantly over recent years.

There has also been a corresponding increase in the average volume sold at each site and an increase in reliance on revenue from non-fuel products such as convenience store sales and car washes, according to the ACCC.

- ⇒ For example, the ACCC estimates that *“the average gross margin on nonfuel sales was in the order of 32 per cent. By contrast, the gross margin on fuel sales was around 7 per cent.”*

RETAIL MARKET PROFITS

The retail fuels market is a high-volume, low margin business. Retail profits are volatile (due to the nature of the market) and are typically a very small proportion of the retail price.

- ⇒ The ACCC has estimated that *“the retail sector as a whole has earned profit at an annual average rate of 1.5 per cent of sales”*.

According to the ACCC:

- ⇒ *“Indicative petrol net profit as a percentage of petrol sales remained relatively steady between 2005-06 and 2008-09 at an annual average rate of 0.7 per cent”* (including in 2008-09).
- ⇒ *“In retail, the estimated profits generated by convenience store sales were significant compared to the estimated profits from petrol.”*
- ⇒ *“The retail sector has about the same profitability as overseas petrol retailers but is less profitable than other kinds of Australian retailers”*.

The ACCC formally monitors fuel prices in Australia, and the prices paid, costs and profits of major fuel suppliers, under the *Trade Practices Act 1974* (see www.accc.gov.au).

- ⇒ The latest ACCC Monitoring Report, which analyses in detail the Australian retail market and prices, is available from <http://www.accc.gov.au/content/index.phtml/itemId/906872>.

RETAIL PRICE COMPARISONS & COMPETITION

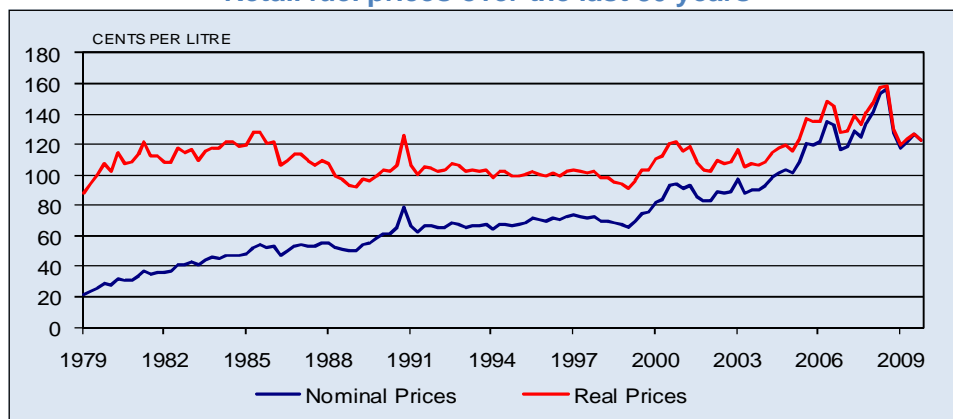
Fuel prices to consumers and major fuel users in Australia are highly competitive, providing the domestic economy with a competitive advantage and underpinning the competitiveness of Australian industries like mining, agriculture, transport, manufacturing, forestry and fishing.

According to the ACCC, by international standards Australia has among the lowest petrol and diesel prices, on both a pre-tax and post-tax basis – see chart over.

- ⇒ The ACCC noted that, “even when Australian prices were at record highs (in July 2008) Australia still had lower retail prices than all but three members of the OECD.”
- ⇒ When comparing Australian fuel prices to other countries, allowance must be made for different government taxes and rates on fuel and for any subsidies and road user charges that don't apply here (eg. in New Zealand). Many countries in the Asian region heavily subsidise retail fuel sales.

Fuel prices today are also around the same level as back in the early 1980s (in today's dollars).

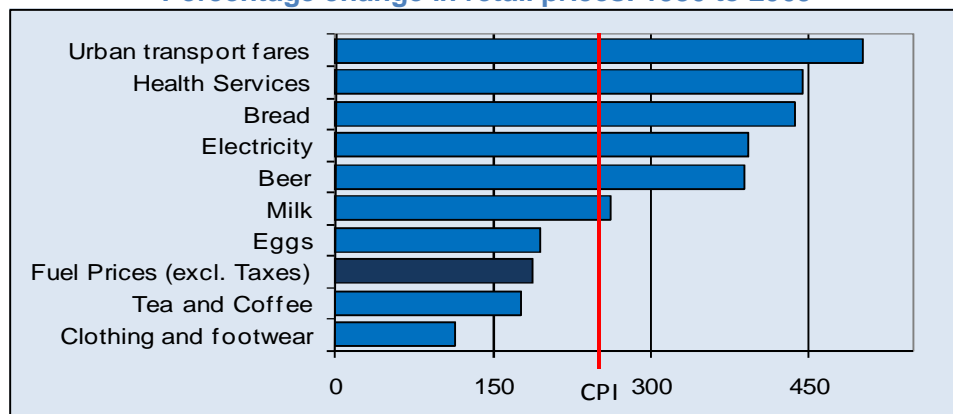
Retail fuel prices over the last 30 years



SOURCE: ABS

Since 1980, the increase in retail fuel prices paid by consumers has been less than the increase in the CPI and the price increases for other major household items (when fuel taxes are excluded).

Percentage change in retail prices: 1980 to 2009



SOURCE: ABS

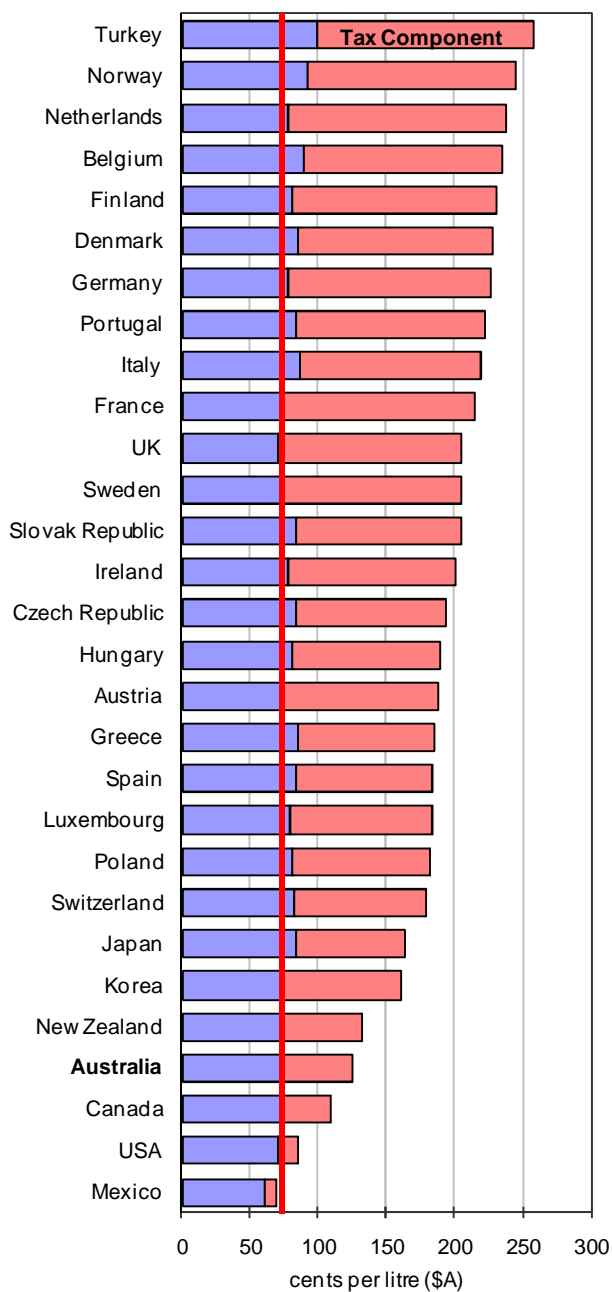
Consumers are getting value for money in Australia because the fuels market is highly competitive.

- ⇒ This is a view shared by successive government reviews of the petroleum market and by many informed commentators and analysts, including the ACCC and International Energy Agency.

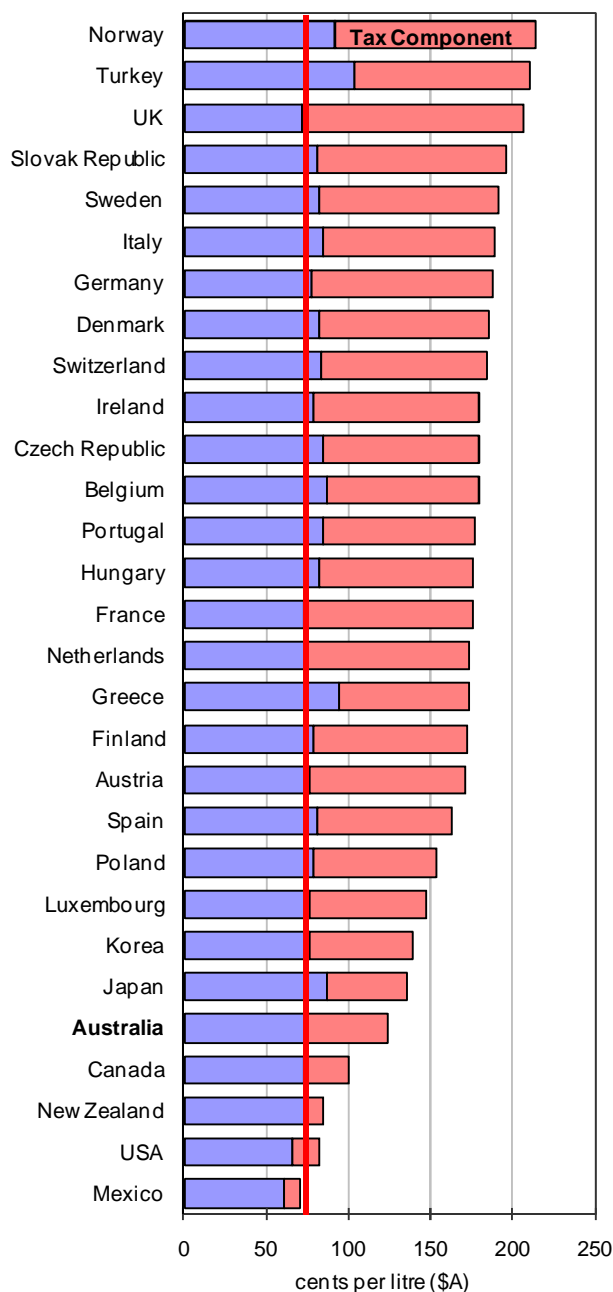
All the way along the crude oil and products supply chains there are several large and numerous smaller market participants constantly driving market competition.

Petrol and Diesel Retail Prices and Taxes in OECD Countries: September Quarter 2009

Petrol Prices and Taxes in OECD Countries



Diesel Prices and Taxes in OECD Countries



SOURCE: DEPARTMENT OF RESOURCES, ENERGY & TOURISM
AND INTERNATIONAL ENERGY AGENCY (IEA)