

FACTS ABOUT PRICES IN REGIONAL & COUNTRY AREAS

WHY RETAIL PRICES TEND TO BE HIGHER IN REGIONAL AREAS

Retail fuel prices can vary widely between cities and regional towns due to differing economic and competitive characteristics.

Based on ACCC analysis, country prices tend to be higher and more stable compared to major capital city prices due to:

- Lower fuel volumes and convenience store sales over which to recover service station 'operating costs'. *"Generally, the more fuel sold in a particular area, the cheaper its likely price"* according to the ACCC.
 - 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.
 - According to the ACCC, *"certain operating costs (eg. rent and maintenance) for running a service station may be roughly the same no matter how many litres of fuel are sold."*
 - Therefore, *"over the long run (regional service stations) must sell their fuel products at higher prices than city service stations so they can cover the fixed costs involved with running a service station"* (ACCC).
 - 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.
- Market competition can also vary greatly between country towns, so that pump prices do not just reflect volume, cost and freight and handling differences.
 - The number and location of service stations *"can affect the degree of market competition"* and the sale price of fuel, according to the ACCC.
 - 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. *"Regional centres and country towns do not generally have the weekly retail price cycles that are evident in the largest capital cities"* (ACCC).

In summary, *"the level of competition, the volume of fuel sold at a particular retail site, and the differing freight and storage costs all affect different country towns to a varying degree, which can result in wide variations in fuel prices throughout regional Australia"* according to the ACCC.

Because of these factors, the ACCC estimates that prices in regional centres and country towns have been about 5.4 cents per litre higher, on average, than prices in the five largest capital cities over the past 9 years. Over the same period, the country-city price difference across all states and territories has averaged 2.9 cents per litre.

However, while tending to be higher and more stable, *"retail prices in regional centres and country towns are largely driven by international benchmark prices and the exchange rate"*, according to the ACCC.

WHY RETAIL PRICES IN REGIONAL AREAS RESPOND MORE SLOWLY TO INTERNATIONAL PRICE CHANGES

Price changes in regional centres and country towns 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. According to the ACCC:

- *“Retail prices of fuels in Australia respond to changes in their relevant international benchmark price.”*
- *“Prices in country areas generally respond more slowly to international price changes than prices in the larger cities.”*
- *“Prices tend to move up and down more slowly in country areas because wholesalers and retailers replenish their fuel stocks less frequently, which means that the flow of price changes through the supply chain can take longer.”*
- *“Generally, when city prices drop, it takes a while for prices to drop in some country areas. However, the reverse also applies: when city prices rise, the price rise may take more time to hit country areas. When this happens, fuel prices in some small towns can be lower than in the cities.”*

RETAIL MARKET STRUCTURE IN REGIONAL AREAS

In regional and country areas, 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 supermarkets and independents (including branded independents) operate and set the prices at around 84% of retail sites across Australia.

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 license.

- *“**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.*

MORE INFORMATION ON REGIONAL PRICES

The transparency of Australian fuels prices is assisted by extensive information and data published by AIP and member companies, including:

- a range of AIP factual information on fuel prices (see <http://www.aip.com.au/pricing/facts.htm>);
- daily wholesale market price data for major Australian cities;
- weekly retail petrol price data petrol for over 100 city and regional locations across Australia (see <http://www.aip.com.au/pricing/retail/ulp/index.htm>); and
- AIP's Weekly Petrol Prices Report www.aip.com.au/pricing/weeklyreport.htm.

The ACCC publishes information on fuel prices in regional Australia – see www.accc.gov.au/content/index.phtml/itemId/892904. The ACCC also formally monitors crude oil and fuel prices (including in regional Australia), and also the prices paid, costs and profits of major fuel suppliers, under the *Competition and Consumer Act 2010* (see www.accc.gov.au). The latest ACCC Price Monitoring Report is available from www.accc.gov.au/content/index.phtml/itemId/1020827.