

WEEKLY DIESEL PRICES REPORT

Week Ending 7 March 2010

Please find attached a copy of the latest AIP Weekly Diesel Prices Report.

All data, charts and tables in this Report are based on the latest available market data to Sunday, 7 March 2010.

For more detailed information on:

Pricing Facts – see www.aip.com.au/pricing/facts.htm

**Terminal Gate Prices
(wholesale)** – see www.aip.com.au/pricing/tgp.htm

**Pump Prices
(retail)** – see www.aip.com.au/pricing/retail.htm

International Fuel Prices – see www.aip.com.au/pricing/international.htm

Should you have any questions about the material in this report, please contact AIP at aip@aip.com.au.

This report has been prepared by ORIMA Research Pty Ltd on behalf of AIP. Whilst AIP has taken due care in ensuring the accuracy of the information or material in this report, the report is made available for general use only and is provided without any express or implied warranty as to its accuracy, completeness or currency.

THE AUSTRALIAN FUEL MARKET - AN OVERALL SNAPSHOT

Understanding Movements in Key Diesel Price Indicators

The Chart below provides an overall 'snapshot' of movements in key market indicators relevant to the price of diesel in Australia.

The Australian refining sector is a price taker. Domestic prices are closely linked to international prices. The Singapore benchmark price of diesel (Gasoil 10ppm sulfur) is the key diesel price benchmark for Australia. As the chart below shows:

- ⇒ the Gasoil price plus shipping costs and Australian taxes represents almost the entire wholesale price of diesel (around 95%)
- ⇒ 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; most diesel is sold in bulk to commercial/industrial customers (eg. mining, transport and farming) on long term contract; such contracts are subject to rigorous competition under regular market tenders.

The orange shaded area is simply the difference between two key market indicators – the national average Terminal Gate Price (TGP) and Gasoil price plus shipping and taxes. It does not represent profits accruing to oil companies at the wholesale level. A range of costs (including 'landed costs' and 'wholesaling costs') would need to be deducted to determine actual profits at the wholesale level. These 'landed costs' include the costs of:

- ⇒ the quality premium (market cost) for Australian fuel standards
- ⇒ insurance and loss
- ⇒ local wharfage costs

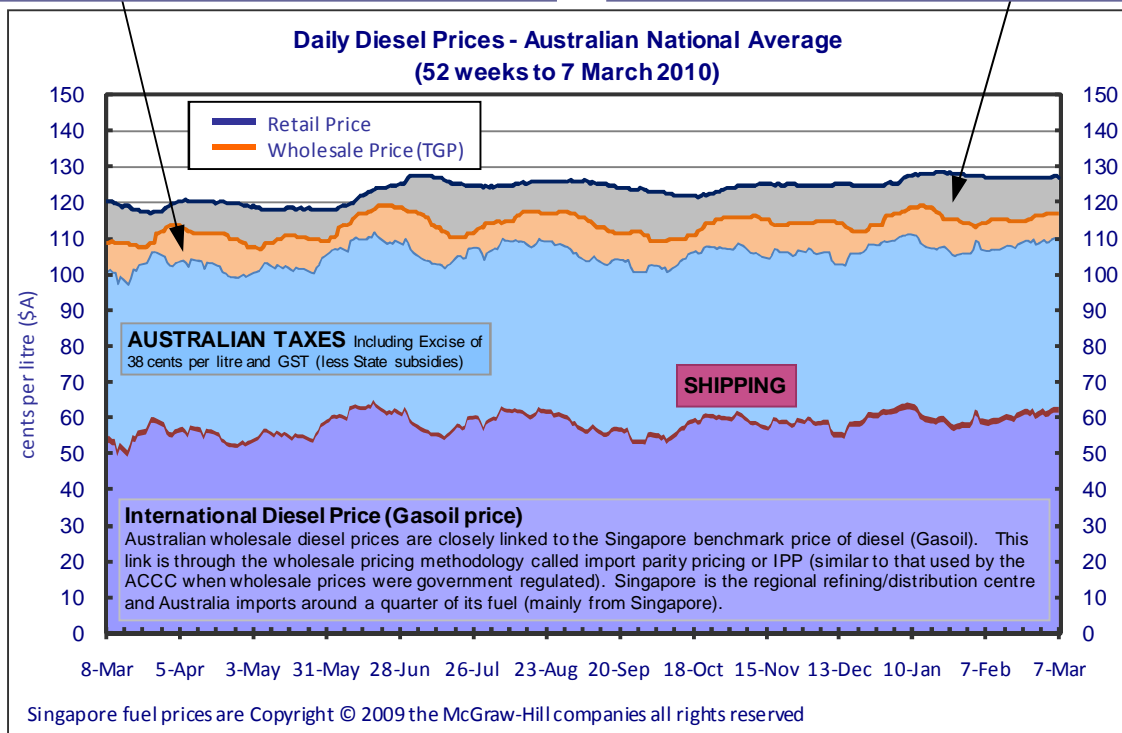
The standard 'wholesaling costs' include:

- ⇒ terminal operating costs
- ⇒ administration and wholesale marketing costs
- ⇒ corporate taxes and government charges on wholesaling activities

The grey shaded area is simply the difference between two key market prices relevant to the retail market. That is, the difference between the national average pump price and average TGP. It does not represent profits accruing to retailers or oil companies. A range of standard retailing costs would need to be deducted to determine actual profits at the retail level.

These 'retailing costs' include:

- ⇒ land transport costs (of getting fuel from the terminal gate to the petrol bowser)
- ⇒ administration and retail marketing costs
- ⇒ the costs of running service stations like wages, rent and utilities
- ⇒ corporate taxes and other government charges on retailing activities



PROFITS OF OIL COMPANIES

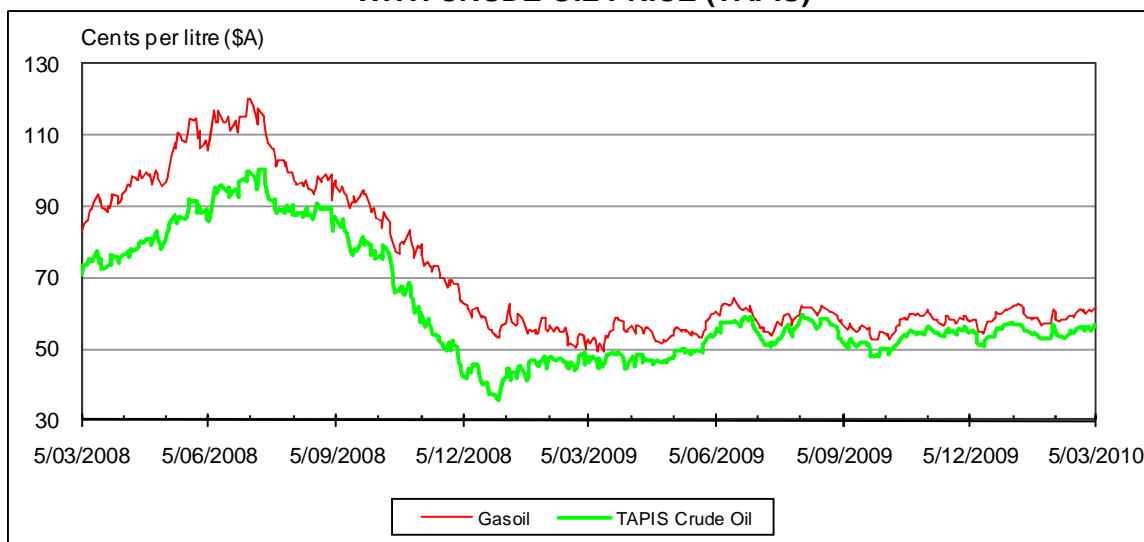
Once all wholesaling and retailing costs are considered, together with competitive market pressures, the total profit made across wholesale and retail activities is a very small proportion of the final pump price. Average oil company profit over the last 10 years is around 1.2 cents per litre of fuel sold.

NOTES

- (1) **INTERNATIONAL DIESEL PRICE:** the international diesel prices are provided by Platts (Copyright © 2009 The McGraw-Hill Companies, all rights reserved), and represent the end of day assessment for the price of Gasoil (50ppm sulfur from 1 January 2006, and 10ppm sulfur from 1 January 2009). No portion of the publication may be photocopied, reproduced, retransmitted, put into a computer system or otherwise redistributed, without prior written Authorisation from Platts. Platts is a trademark of the McGraw-Hill Inc. Information has been obtained from sources believed reliable. However, because of the possibility of human or mechanical errors by sources, McGraw-Hill or others, McGraw-Hill does not guarantee the accuracy, adequacy or completeness of any such information and is not responsible for any errors or omissions or for results obtained from use of such information.
- (2) **SHIPPING:** is the weighted average of daily market shipping rates (Australian cents per litre) for journeys from Singapore to major Australian ports (weighted by the volume of fuel sales in the relevant State). Source data include Platts, Worldscale, Australian Petroleum Statistics and the Reserve Bank of Australia.
- (3) **TAXES:** is excise and GST less any relevant state rebates weighted by fuel volume consumed in each State.
- (4) **NATIONAL AVERAGE WHOLESALE PRICES:** are derived from capital city prices weighted by fuel volume consumed in each State.
- (5) **NATIONAL AVERAGE RETAIL PRICES:** are calculated as the weighted average of each State/Territory's metropolitan and non metropolitan retail diesel prices, with the weights based on the number of registered diesel vehicles in each of these regions.

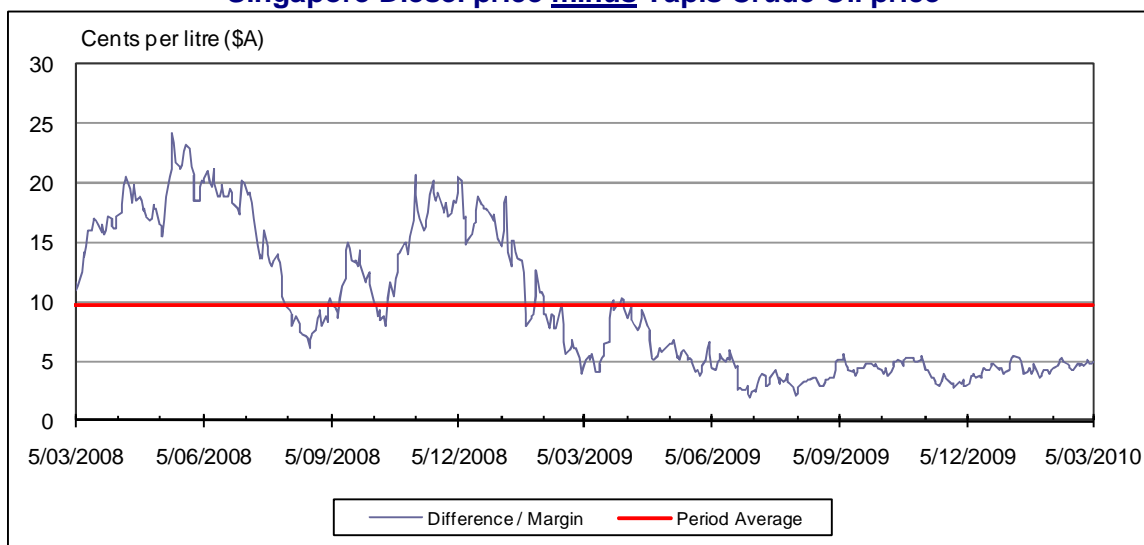
INTERNATIONAL MARKET TRENDS

FIGURE 1: COMPARISON OF SINGAPORE DIESEL PRICE (GASOIL) WITH CRUDE OIL PRICE (TAPIS)



NOTE: Australia is part of the Asia Pacific fuel market (Singapore is the regional refining/distribution centre) and the current market benchmark is Tapis for crude oil and the Singapore price of diesel (Gasoil 10ppm sulfur). Tapis crude oil and Gasoil prices are provided by Platts (McGraw-Hill Inc), see Notes on page 2.

**FIGURE 2: DIFFERENCE BETWEEN MARKET PRICES
Singapore Diesel price minus Tapis Crude Oil price**



NOTE: The refiner margin above is the difference between market prices for Gasoil and Tapis. It is not a figure determined by refiners.

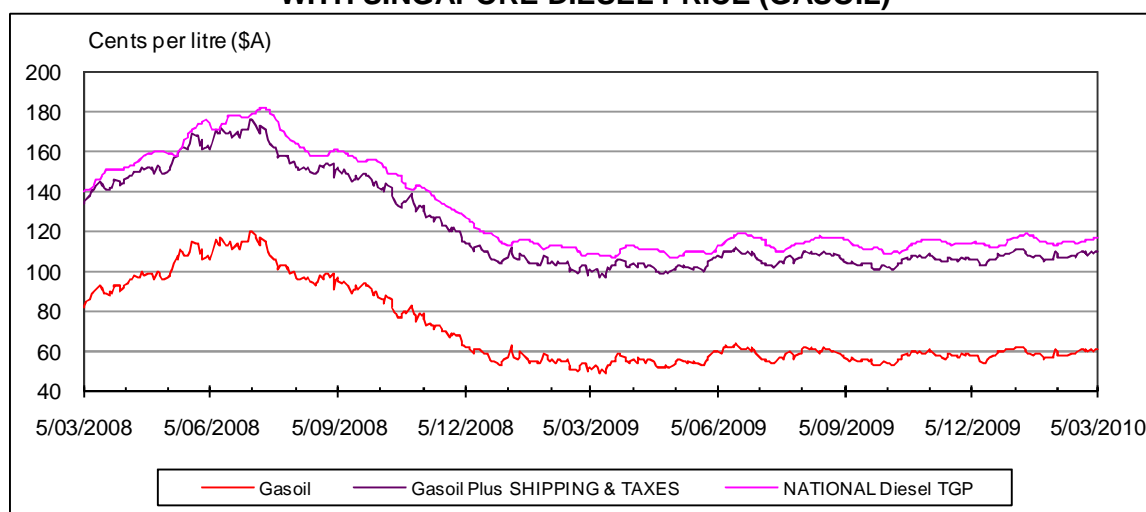
| TAPIS CRUDE OIL | Cents per litre (A\$) | GASOIL | Cents per litre (A\$) |
|---|-----------------------|---|-----------------------|
| Average: Last Week (to Friday 05/03/10) | 56.0 | Average: Last Week (to Friday 05/03/10) | 61.0 |
| Average: Previous Week (to Friday 26/02/10) | 56.0 | Average: Previous Week (to Friday 26/02/10) | 60.7 |
| Average: Last 4 Weeks | 55.1 | Average: Last 4 Weeks | 59.9 |
| Average: Last 12 Weeks | 54.8 | Average: Last 12 Weeks | 59.3 |
| Average: Last 12 Months | 52.9 | Average: Last 12 Months | 57.6 |

PLEASE NOTE

Differences/margins between market prices or benchmarks are used as indicators of general trends in the petroleum market, **they do not represent profits** accruing to oil companies at the refining, wholesale or retail segments of the market. For each market segment, a range of costs would need to be deducted to determine actual profits.

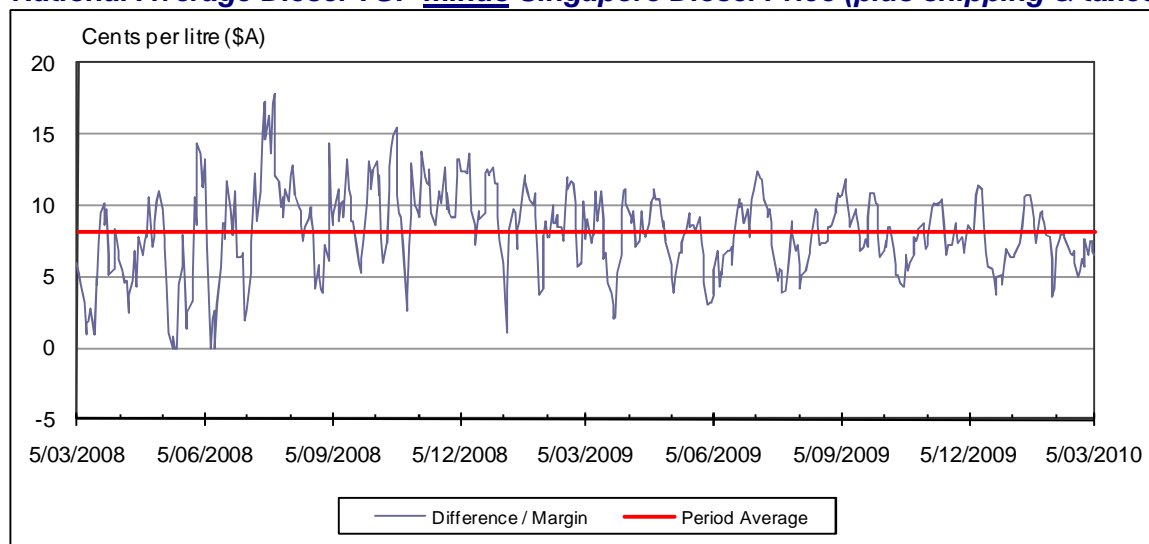
AUSTRALIAN WHOLESALE MARKET TRENDS

FIGURE 3: COMPARISON OF AUSTRALIAN DIESEL TGP (OR 'WHOLESALE PRICE') WITH SINGAPORE DIESEL PRICE (GASOIL)



NOTE: The Gasoil prices and Shipping rates are provided by Platts (McGraw-Hill Inc), see Notes on page 2.

FIGURE 4: DIFFERENCE BETWEEN MARKET PRICES
National Average Diesel TGP minus Singapore Diesel Price (plus shipping & taxes)



| GASOIL | Cents per litre (A\$) | DIESEL TGP (National Average) | Cents per litre (A\$) |
|---|-----------------------|---|-----------------------|
| Average: Last Week (to Friday 05/03/10) | 61.0 | Average: Last Week (to Friday 05/03/10) | 116.7 |
| Average: Previous Week (to Friday 26/02/10) | 60.7 | Average: Previous Week (to Friday 26/02/10) | 115.4 |
| Average: Last 4 Weeks | 59.9 | Average: Last 4 Weeks | 115.5 |
| Average: Last 12 Weeks | 59.3 | Average: Last 12 Weeks | 115.3 |
| Average: Last 12 Months | 57.6 | Average: Last 12 Months | 113.5 |

PLEASE NOTE

Differences/margins between market prices or benchmarks are used as indicators of general trends in the petroleum market, **they do not represent profits** accruing to oil companies at the refining, wholesale or retail segments of the market. For each market segment, a range of costs would need to be deducted to determine actual profits. For example, **at the wholesale level**, a range of costs (including 'landed costs' and 'wholesaling costs') would need to be deducted to determine actual profits at the wholesale level. These 'landed costs' include the costs of the quality premium (market cost) for Australian fuel standards, insurance and loss, and local wharfage costs. The standard 'wholesaling costs' include terminal operating costs, administration and wholesale marketing costs and corporate taxes and government charges on wholesaling activities.

AVERAGE DIESEL TERMINAL GATE PRICES (TGPs) ACROSS AUSTRALIAN STATES/TERRITORIES

Week ended 5 March 2010

DIESEL (cents per litre \$A)

| | Monday 1 March 2010 | Tuesday 2 March 2010 | Wednesday 3 March 2010 | Thursday 4 March 2010 | Friday 5 March 2010 |
|------------------|------------------------|-------------------------|---------------------------|--------------------------|------------------------|
| Sydney | 116.2 | 116.3 | 116.6 | 116.5 | 116.5 |
| Melbourne | 115.6 | 115.7 | 116.0 | 115.9 | 115.9 |
| Brisbane | 115.9 | 116.1 | 116.3 | 116.3 | 116.3 |
| Adelaide | 116.2 | 116.4 | 116.6 | 116.6 | 116.6 |
| Perth | 117.1 | 117.3 | 117.5 | 117.4 | 117.5 |
| Darwin | 120.4 | 120.6 | 120.8 | 120.8 | 120.8 |
| Hobart | 120.8 | 121.0 | 121.2 | 121.1 | 121.1 |

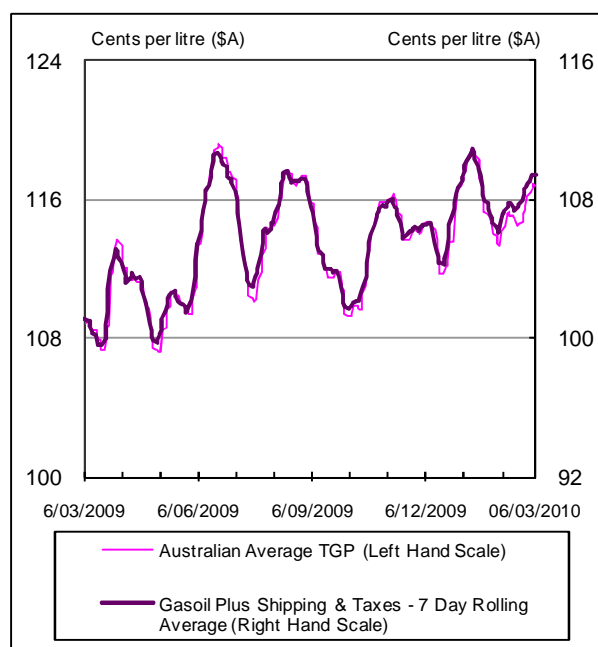
NOTES: Daily TGP data are published by all wholesale fuel suppliers. AIP's website presents average TGP data for each weekday – see www.aip.com.au/pricing/tgp.htm. This data has been prepared by ORIMA Research Pty Ltd on behalf of AIP, using information from BP Australia, Caltex, Shell Australia, and ExxonMobil Australia. Prices shown are the average TGP for diesel across each of these companies for the day.

EXPLAINING THE TIME LAG BETWEEN CHANGES IN SINGAPORE PRICES AND CHANGES IN AUSTRALIAN WHOLESALE DIESEL PRICES

Generally, there is a **short time lag** of 1-2 weeks between changes in Singapore prices and changes in Australian prices.

- ⇒ The lag can be seen in FIGURE 3 on the previous page. That is, see the slight delay in the peaks and troughs in the **pink line** (National Average TGP) compared to the **purple line** (Gasoil 50ppm sulfur plus Shipping & Taxes).
- ⇒ Importantly, this time lag occurs whether: prices are going up (when the lag slows price rises to consumers) or prices are going down (when the lag delays price falls).
- ⇒ The lag is a result of using a rolling average of Singapore prices as part of the wholesale pricing methodology (very similar to that used by the ACCC when wholesale prices were regulated by government). The pricing methodology is called import parity pricing (IPP).
- ⇒ The use of rolling averages smooths day-to-day price volatility.
- ⇒ Not accounting for this lag, introduced by the rolling average, leads to incorrect conclusions about how Singapore prices flow through to prices in Australia.

The very close relationship between changes in Gasoil prices and changes in Australian TGPs can be seen by applying a rolling average to the Gasoil price data (a 7 day rolling average is used in the Chart to the right to illustrate this).



AUSTRALIAN RETAIL MARKET TRENDS FOR DIESEL

FIGURE 5: COMPARISON OF AUSTRALIAN PUMP PRICE WITH AUSTRALIAN TGP
Average Retail Diesel Price versus Average Wholesale Diesel Price

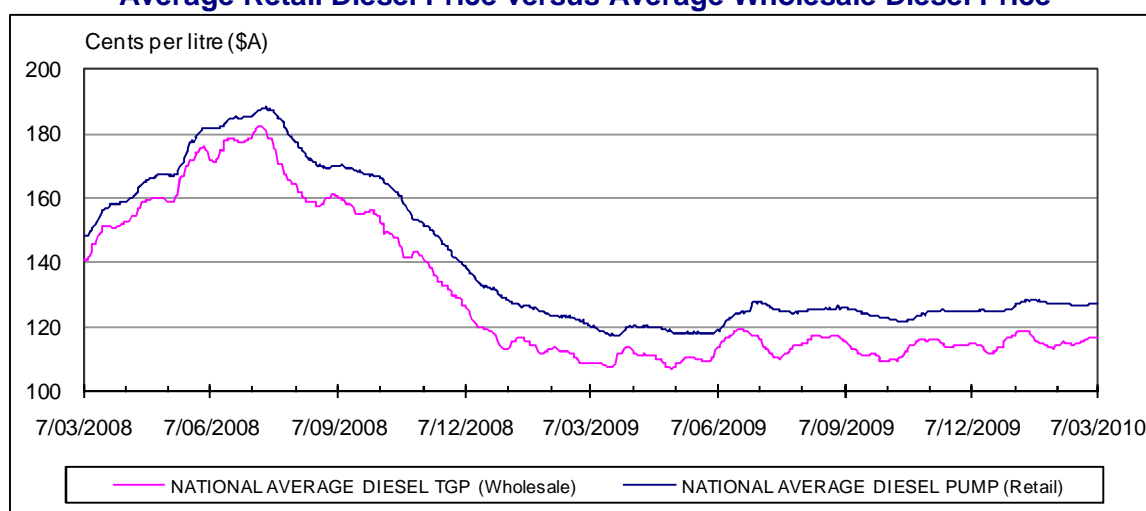
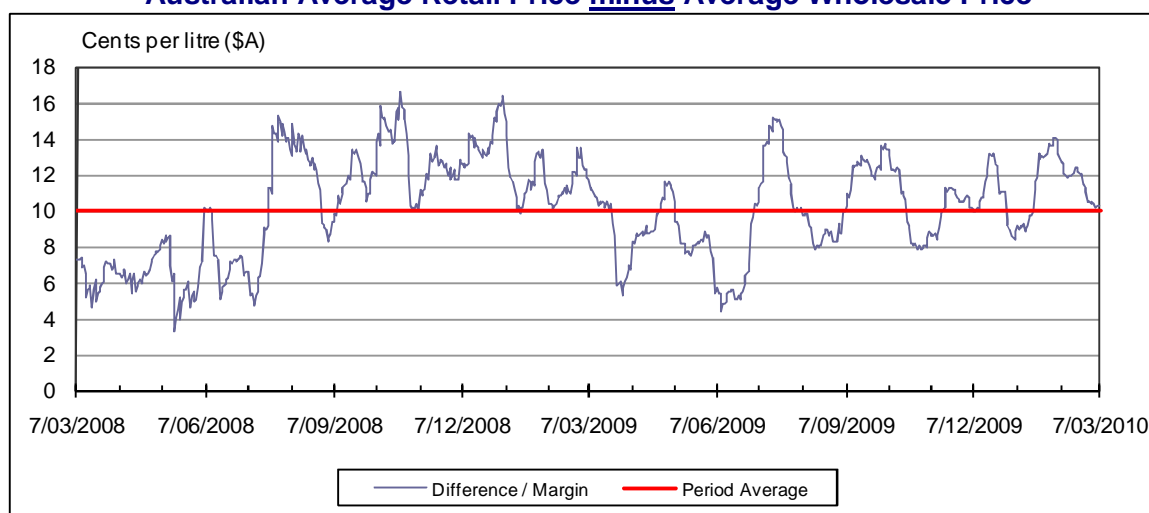


FIGURE 6: DIFFERENCE BETWEEN MARKET PRICES
Australian Average Retail Price minus Average Wholesale Price



| Wholesale: Diesel TGP (National Average) | Cents per litre (A\$) | Retail: Diesel Pump Price (National Average) | Cents per litre (A\$) |
|--|-----------------------|--|-----------------------|
| Average: Last Week (to Friday 05/03/10) | 116.7 | Average: Last Week (to Sunday 07/03/10) | 127.1 |
| Average: Last Week (to Friday 26/02/10) | 115.4 | Average: Last Week (to Sunday 28/02/10) | 126.7 |
| Average: Last 4 Weeks | 115.5 | Average: Last 4 Weeks | 126.9 |
| Average: Last 12 Weeks | 115.3 | Average: Last 12 Weeks | 126.7 |
| Average: Last 12 Months | 113.5 | Average: Last 12 Months | 123.6 |

PLEASE NOTE

Differences/margins between market prices or benchmarks are used as indicators of general trends in the petroleum market, **they do not represent profits** accruing to oil companies at the refining, wholesale or retail segments of the market. For each market segment, a range of costs would need to be deducted to determine actual profits.

For example **at the retail level**, a range of standard retailing costs would need to be deducted to determine actual profits. These costs include:

- ⇒ land transport costs (of getting fuel from the terminal gate to the petrol bowser)
- ⇒ administration and retail marketing costs
- ⇒ the costs of running service stations like wages, rent and utilities
- ⇒ corporate taxes and other government charges on retailing activities

RETAIL DIESEL PRICE TRENDS ACROSS STATES/TERRITORIES

Week ended 7 March 2010

'NATIONAL AND STATE' AVERAGE DIESEL PRICES (cents per litre \$A)

| | Weekly Average | Weekly Change | Low | High |
|--------------------|----------------|---------------|-------|-------|
| National Average | 127.1 | 0.4 | 127.0 | 127.2 |
| NSW / ACT | 127.0 | 0.5 | 126.7 | 127.2 |
| Victoria | 123.9 | 0.2 | 123.8 | 124.0 |
| Queensland | 126.6 | 0.1 | 126.4 | 126.8 |
| South Australia | 125.7 | 0.3 | 125.7 | 125.8 |
| Western Australia | 130.6 | 0.6 | 130.3 | 131.0 |
| Northern Territory | 135.2 | 0.2 | 134.8 | 135.7 |
| Tasmania | 131.3 | -0.2 | 131.2 | 131.5 |

'METROPOLITAN' AVERAGE DIESEL PRICES (cents per litre \$A)

| | Weekly Average | Weekly Change | Low | High |
|------------------------|----------------|---------------|-------|-------|
| National Metro Average | 125.3 | 0.6 | 125.1 | 125.3 |
| Sydney | 125.2 | 1.0 | 124.8 | 125.4 |
| Canberra | 125.7 | 1.0 | 125.3 | 126.1 |
| Melbourne | 122.9 | 0.2 | 122.7 | 123.0 |
| Brisbane | 124.5 | 0.5 | 124.4 | 124.7 |
| Adelaide | 123.7 | 0.4 | 123.6 | 123.8 |
| Perth | 128.1 | 0.9 | 127.6 | 128.5 |
| Darwin | 131.1 | 0.3 | 130.4 | 131.9 |
| Hobart | 131.2 | 0.2 | 131.1 | 131.4 |

'REGIONAL' AVERAGE DIESEL PRICES (cents per litre \$A)

| | Weekly Average | Weekly Change | Low | High |
|---------------------------|----------------|---------------|-------|-------|
| National Regional Average | 128.3 | 0.1 | 128.3 | 128.4 |
| NSW / ACT | 128.2 | 0.3 | 128.0 | 128.4 |
| Victoria | 124.9 | 0.3 | 124.7 | 125.0 |
| Queensland | 127.6 | -0.1 | 127.3 | 127.8 |
| South Australia | 127.3 | 0.2 | 127.2 | 127.4 |
| Western Australia | 133.0 | 0.4 | 132.5 | 133.6 |
| Northern Territory | 140.3 | 0.2 | 140.0 | 140.9 |
| Tasmania | 131.4 | -0.4 | 131.3 | 131.6 |

For more information on average weekly retail (pump) prices for diesel across Australia, please see www.aip.com.au/pricing/retail.htm

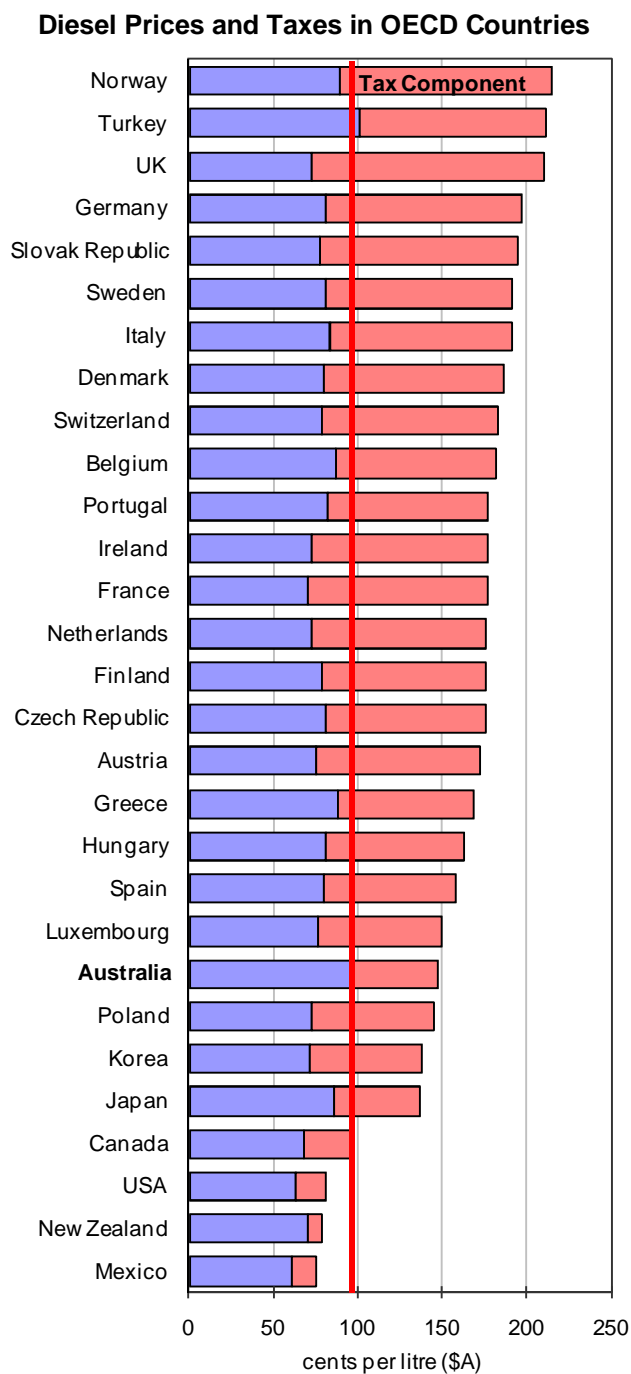
NOTES

- (1) The National Average Retail price is calculated as the weighted average of each State/Territory's metropolitan and non metropolitan retail diesel prices, with the weights based on the number of registered diesel vehicles in each of these regions.
 - (2) The National Metropolitan Average price is calculated as the weighted average of the retail diesel prices across each capital city, where the weights are based on the number of vehicles using diesel registered in each city.
 - (3) The Regional Average prices (including the National Regional Average) are calculated as the weighted average of the retail diesel prices for the non-metropolitan regions in each State/Territory, where the weights are based on the number of vehicles using diesel.
 - (4) The vehicle data source is *ABS Motor Vehicle Census, 2005, Cat No 9309.0*.
 - (5) 'Weekly Low' and 'Weekly High' are based on the lowest and the highest average daily prices in the relevant area.
 - (6) Weekly Average prices are a straight average of the seven days.
 - (7) Weekly Change is the change compared with the Weekly Average last week.
- For more information on data methodology, please see the AIP Website (www.aip.com.au/pricing/retail.htm).

DIESEL PRICES & TAXES IN OECD COUNTRIES

June Quarter 2009

The Chart below shows Australia has among the lowest diesel prices of all OECD countries.



Source: Australian Petroleum Statistics, Department of Resources, Energy & Tourism