Australian Institute of Petroleum

DOWNSTREAM PETROLEUM

THE AUSTRALIAN WHOLESALE FUELS MARKET AND PRICES

KEY MESSAGES

- Australian wholesale fuel prices are transparent and linked to international prices.
- Over 90 per cent of the wholesale fuel price is refined product cost plus Government tax.
- There is significant wholesale market competition in Australia.
- There is competition for bulk fuel supply both 'into terminal' and 'ex-terminal' to wholesalers, resellers, retailers and other major fuel users.
- The underlying pricing approaches in bulk fuel contracts and TGP transactions are generally the same for all wholesale customers.
- Changing market shares and profitability of major fuel suppliers over time, including refiner-marketers and independent suppliers, demonstrates a competitive market.
- Independent fuel importers and wholesalers now own the same import storage capacity for petrol as the major oil companies.
- Petrol imports by independent wholesalers have increased six -fold since 2007-08 according to the ACCC.

WHOLESALE FUEL PRICES

Australian wholesale fuel prices are closely linked to international prices through Import Parity Pricing (IPP).

The IPP is the 'landed cost' of refined fuel to import terminals around Australia and includes:

- the refinery benchmark price for fuel (eg for petrol - MOPS95 petrol)
- the 'quality premium' for specific Australian fuel standards
- freight
- exchange rate
- wharfage, insurance and loss.

Terminal Gate Prices (TGPs or spot wholesale prices) typically include the IPP as well as 'wholesaling costs' to store and handle the fuel once it arrives in Australia and prior to its distribution to the domestic market. TGPs also include taxes (fuel excise and GST) and a small wholesale profit margin.

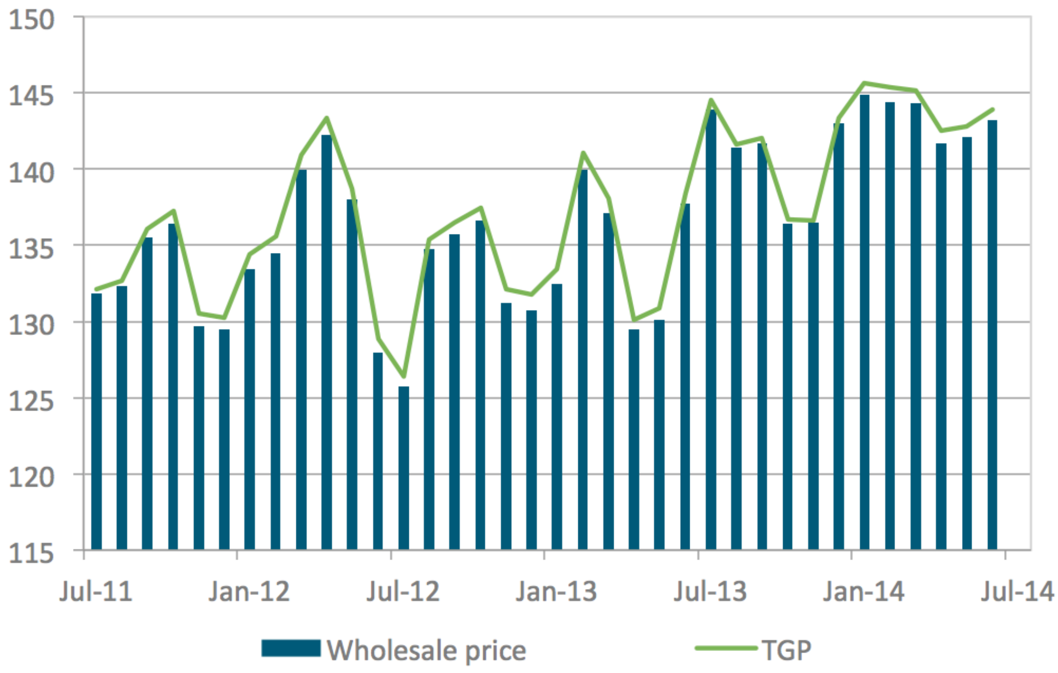
Wholesale price transparency in the Australian market is assisted by the regulated publication of TGPs for petrol and diesel by all AIP members. The ACCC has concluded that "by virtue of its transparency and the fact that it represents a fuel-only charge, TGP is a useful benchmark for analysing wholesale prices".

The most recently available ACCC analysis shows wholesale prices paid by customers vary slightly from TGP. In 2013-14, the average difference was 0.7 cent per litre. Differences are explained by volume discounts applying to contracted customers and large orders, or charges for additional services as part of the transaction like delivery costs and use of proprietary brands.

According to the ACCC, the average annual net profit for the wholesale sector over the last 12 years was 0.3 cents per litre for petrol and 1.7 cents per litre across all fuels.

AVERAGE WHOLESALE PRICES
PAID VERSUS AVERAGE TERMINAL GATE PRICES (TGP)

2011-12 to 2013-14 ULP, Cents Per Litre



Source: ACCC

IMPORT PARITY PRICING (IPP)

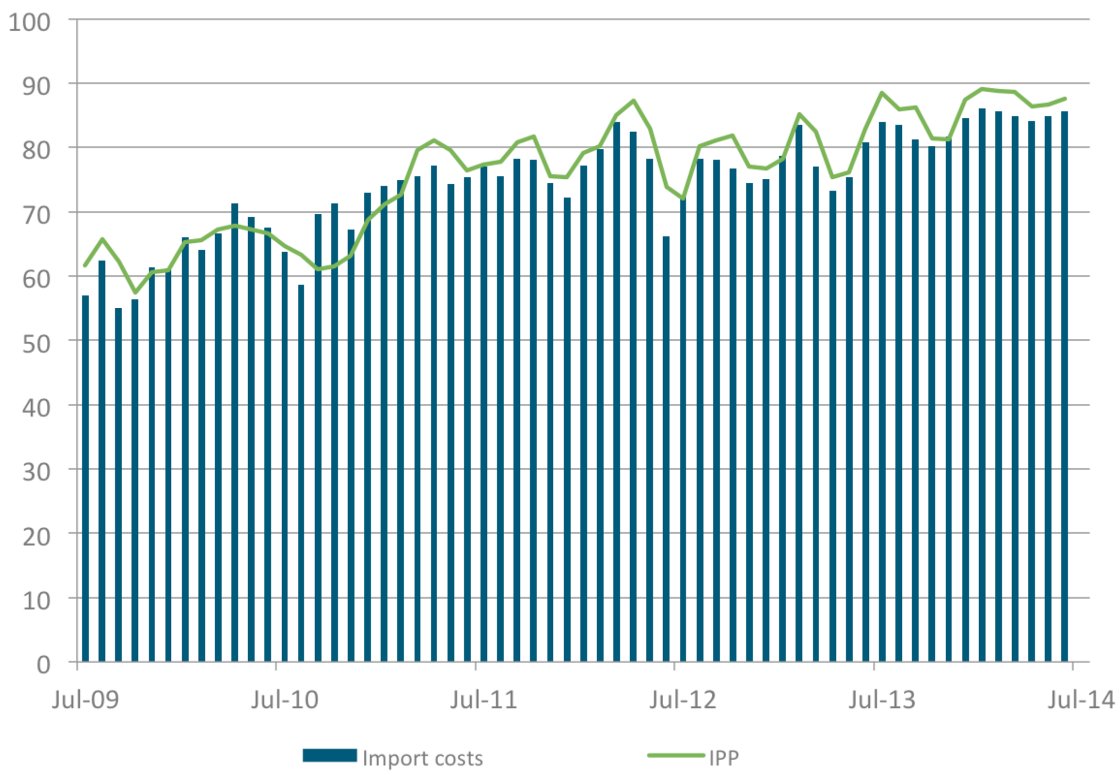
The ACCC has concluded that the IPP benchmark has a strong relationship with actual costs of fuel imports into Australia.

The ACCCs' most recently available analysis shows that the actual import costs paid by major fuel suppliers have closely followed the IPP over the past three years, with the difference averaging around 2.6 cents per litre.

With imports providing the marginal source of supply and with prices set according to IPP, the ACCC considers Australian refiners (and suppliers) have little scope to pass on costs that are out of line with international markers.

IPP VERSUS IMPORT COSTS PAID BY WHOLESALE FUEL SUPPLIERS

2009-10 to 2013-14, ULP Cents per litre



Source: ACCC

FACTS ABOUT BULK FUEL TERMINALS

Bulk fuel terminals are large storage facilities from which bulk fuel is stored and distributed to wholesalers, retailers, distributors and large end-users. These may be import terminals, refinery terminals, marketing terminals or depots.

The bulk fuels market in Australia is highly competitive and efficient, with diversified ownership and operation of bulk fuel terminals, and with prices and contracts being market determined.

Terminals can be owned and/or operated by:

- refiner-marketers (including joint ventures)
- independent fuel importers
- independent terminal operators
- large end users.

Import Terminals - Ownership: 2013-14	
Refiner Marketers:	
- Sole Ownership	41
- Joint Venture	3
Independent	14
Total	**58**

SOURCE: ACCC

Other parties may access terminals through:

- hosting arrangements to store and load product at the terminal (for a market-based usage charge on a spot or long-term basis)
- leasing of storage capacity (typically long-term agreements based on a commercial return on capital and operating costs).

For economic and cost efficiency reasons, refiners, major fuel suppliers and independents often buy bulk fuel from each other in markets where they do not own facilities or where they do not directly import through hosting arrangements.

Terminal capacity and throughput are two key measures of terminal usage.

The key determinants of terminal capacity are the operating conditions that apply at individual terminals and in the supply network, including the number and size of tanks, demand patterns, mode of supply and related infrastructure, shipping schedules, berth capacity and load-out facilities.

Similarly, throughput depends on a range of factors such as demand patterns, shipping and delivery schedules and loading, storage and supply capacity.

Import Terminals - Petrol capacity and throughput: 2013-14	Capacity (ML)	Throughput (ML)	Turnover (times)
Independently Owned	337	1965	6
Refiner-Marketer Owned	280	2446	9
AUSTRALIA	617	4411	7

SOURCE: ACCC

Fuel sales into and out of terminals

Contracts for sales of fuel 'into' terminals, whether from domestic or international sources, are based on import parity pricing (IPP).

Sales of fuel 'from' terminals are negotiated on commercial terms mainly to contracted wholesale and retail customers, and are based on IPP.

Terminal operators seek to recover the terminal's capital and operating costs including taxes and other charges. Discounts or premiums may apply to customers depending on the volume, contract term, and any branding or marketing support provided.

Spot purchases occur at terminal gate prices (TGPs) which are also based on IPP.

IMPORT AND INFRASTRUCTURE ADEQUACY AND COMPETITION ISSUES

Australia's petroleum import and distribution infrastructure is a key component of the Australian fuel supply chain and is underpinned by considerable investment in new and existing facilities. Over a number of years, major independent and government reviews have concluded that:

- significant investment in new or expanded facilities has been occurring and more is under construction or planned
- there is spare capacity to meet future demand and import growth for fuels, particularly in some independently owned import terminals
- there are a range of economic options in Asia to import fuel meeting Australian quality standards.

THIS INVESTMENT ENVIRONMENT WILL ENSURE ONGOING FUEL SUPPLY SECURITY AND COMPETITIVE FUEL PRICES TO CONSUMERS AND MAJOR FUEL USERS.

There is no regulated access for third parties to bulk fuel terminals and distribution infrastructure as there is significant spare capacity in the bulk fuels market. Access is readily available on commercial terms (through leasing, hosting and usage charges).

Applying access regulation to this privately owned infrastructure would seriously reduce incentives to invest in new infrastructure and maintenance, and would increase the costs of fuel supply to business and consumers. Australia's future supply security would be impacted because more investment in terminals would be needed to meet future demand and a higher level of imports.

AIP supports reforms to ensure that planning, approval and regulatory processes are efficient, timely and nationally consistent, so as to facilitate longer term investment in liquid fuel import, storage and distribution infrastructure. There is also an ongoing need for governments (and private port operators) to maintain investment in port facilities and associated fuel handling infrastructure to remove supply bottlenecks and to meet future expected growth in fuel imports and demand.

Australian
Institute of
Petroleum

For more information visit www.aip.com.au