

FACTS

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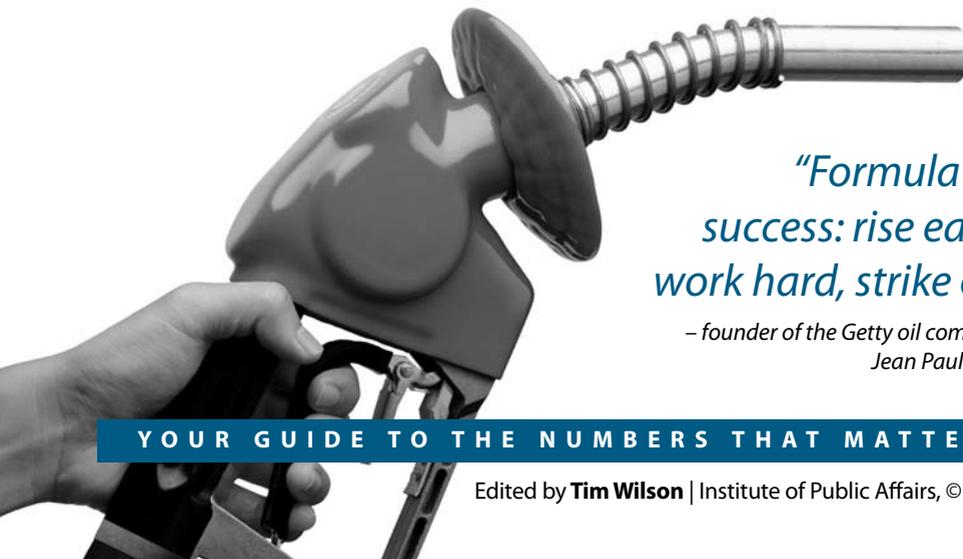
Who prices petrol?

Why petrol costs are not a corporate conspiracy

No retail product draws as much scrutiny as petrol. Petrol operates in a dynamic marketplace based on supply, demand and competition.

Yet every time there is a shift in petrol prices consumers, politicians and regulators cry foul. The irony is that despite numerous Government investigations into petrol pricing and pricing arrangements they never find inappropriate conduct by companies, but they still recommend greater scrutiny. Which is ironic, because the least scrutinised and market-orientated components of petrol pricing are the taxes imposed by Government.

This *FACTs* answers simple questions on what affects the pricing of petrol.



“Formula for success: rise early, work hard, strike oil”

*– founder of the Getty oil company,
Jean Paul Getty*

YOUR GUIDE TO THE NUMBERS THAT MATTER

Edited by **Tim Wilson** | Institute of Public Affairs, © 2008

Where does Australia's petrol come from?

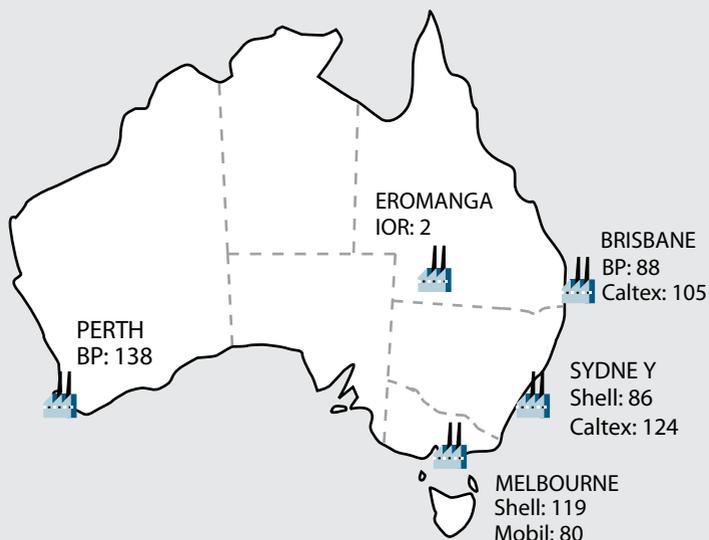
Australia makes about 75% of its transport fuels—petrol, diesel and jet fuel—with the balance mostly coming from Singapore and other countries in the region. Australia has eight operating refineries.

But Australia is a small producer of fuel. Across the region, Australia pales in comparison to mega-refiners like China, Japan, India, South Korea and the export-focused Singapore.

Despite criticism being directed at 'big oil' these companies have little control over the fuel product trade in the region. 'Big oil', sometimes referred to as 'supermajors', are among the largest energy companies in the world and include BP, Chevron (which has a 50% shareholding in Caltex in Australia), ConocoPhillips, Exxon Mobil, Shell and Total.

Only 15% of refineries in the Asia Pacific region are controlled by 'big oil'.

Refineries in Australia, '000 barrels per day

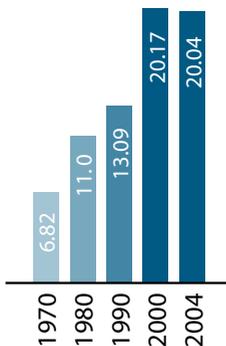


Source: Australian Institute of Petroleum



Why the Singapore market price?

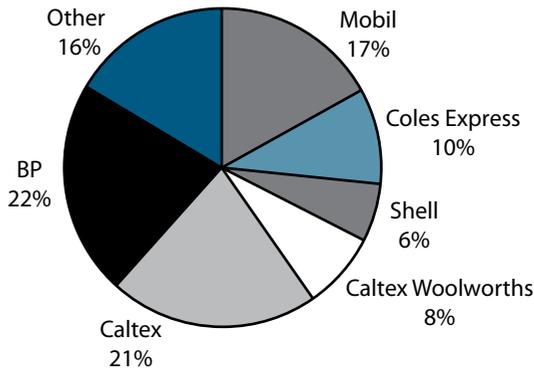
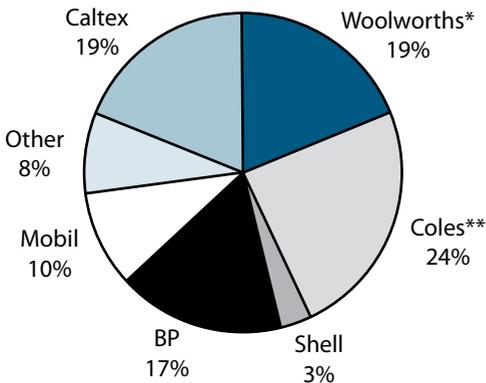
Asia refining capacity (million barrels per day)



Source: BP statistical review of world energy, June 2005

The market price for petrol in Australia—both before and since deregulation in 1998—is set relative to the regional market hub price in Singapore. If petrol in Australia was not sold at the international market price the 20 per cent that is currently imported would not be available and companies would have incentive to export Australian-made products to markets where they would get a better price. The inevitable result: shortages in Australia.

Petrol market share by brand (at 07/2006) and Retail market share by site numbers



* Co-branded Caltex and Woolworths, ** Co-branded Shell and Coles
Source: Caltex

How is the petrol price set?

Petrol in Australia isn't expensive. According to the International Energy Agency, Australia's petrol is placed 4th cheapest out of the 29 OECD countries.

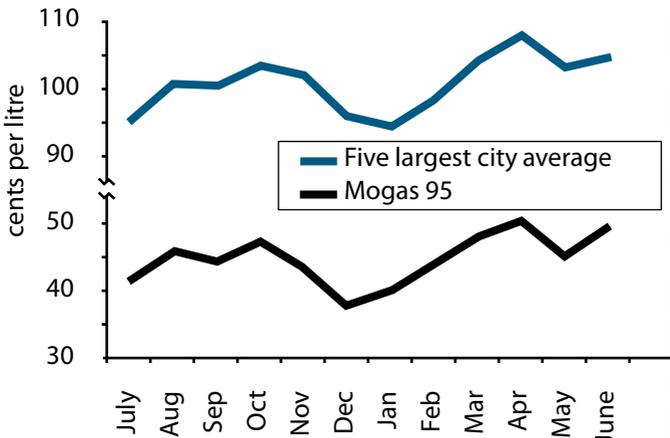
The price of petrol is based on the market price in Singapore. Petrol is traded in US dollars. So the Australia-US exchange rate affects the purchasing power for petrol in Singapore. The difference between the Singapore price and the bowser price can substantially be explained by fluctuation in the Australia-US exchange rate and the addition of a quality premium for the higher standard Australian product, freight to Australia, insurance, wharfage, wholesale and retail margins, excise and GST.

Retail Price for Petrol, March Quarter 2007

Country	Unleaded Petrol (AUD\$ per litre)	Tax on petrol
Mexico	0.780	0.144
United States	0.829	0.134
Canada	1.020	0.336
Australia	1.160	0.486
New Zealand	1.259	0.568
Japan	1.457	0.642
France	1.987	1.328
Germany	2.060	1.420
UK	2.168	1.524
Turkey	2.447	1.595

Source: OECD

Monthly average unleaded petrol prices in the five largest Australian cities compared to the monthly average Singapore "Mogas 95" unleaded price



Source: ACCC



What is the price cycle?

Most consumers think prices always go up in the lead up to weekends and long weekends because of price fixing. In fact it is part of a well-established price cycle.

Despite its hostility to the industry, even the Australian Competition and Consumer Commission recognises that market signals make up a large part of the price cycle.

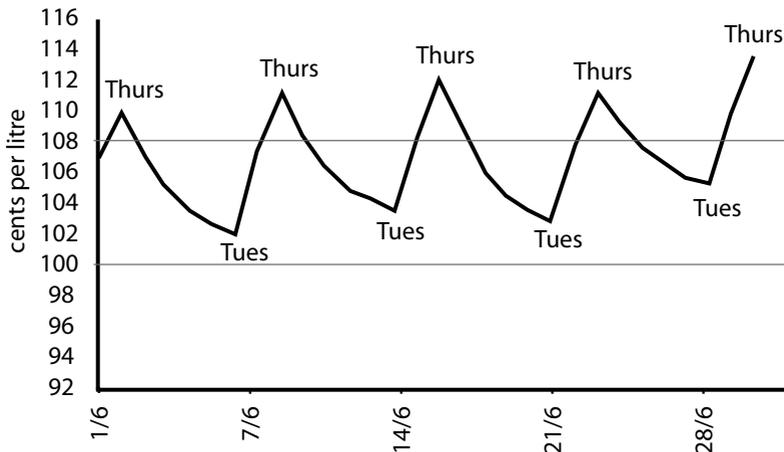
“Motorists have become used to the price cycle, and many of them, where possible, take advantage of it.”

– Royal Automobile Club of Victoria

Many factors contribute to the petrol price cycle

- Competition amongst retailers that operate in a highly transparent market
- Price support to franchisees from their parent companies to help meet competition
- Varying wholesale prices offered to petrol retailers

Average daily retail prices for unleaded petrol - Sydney - 01/06/2005 - 30/06/2005



What else influences the price of petrol?

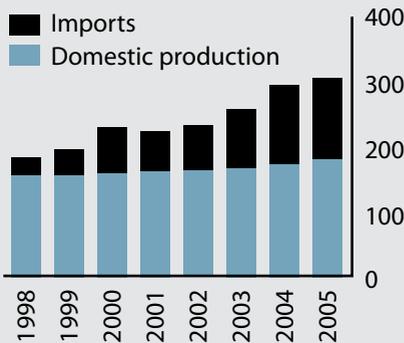
For consumers, petrol is a very transparent product.

Unleaded petrol is a uniform, interchangeable product that removes the need for brand loyalty. Prices of petrol are also advertised on big boards visible from the road. As a result, the Australian retail market is highly competitive. If prices are high at one petrol station, motorists can drive on to another for a different price.

Equally because of the high visibility of the price, petrol stations often change their price throughout the day in response to competition from other retailers.

In **Western Australia** the government has imposed a regulation stopping retailers from changing the retail price of petrol more than once in a 24-hour period. But the **reduced competition** has **slowed beneficial price falls** and retailers have compensated by **raising the average price**. For price-sensitive motorists they usually can only buy at discount every second week because of a two-week price cycle.

China's crude oil, million tonnes, 1998-2005



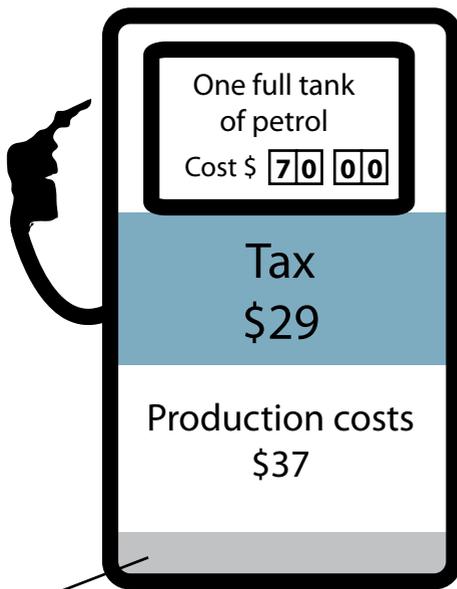
Supply and demand

Petrol is like any other commodity. If there is **increased demand** that exceeds available supply, **the price goes up**. China and India's oil demand is increasing by the day as people are lifted out of poverty. China is also storing 'strategic reserves' of crude oil in a newly built depot in the Eastern province of Zhejiang. **China's increased consumer and strategic reserves demand is forcing up crude oil prices**. Higher crude prices mean higher petrol prices.

How does the government increase petrol prices?

Caltex, the only oil refining and marketing company listed on the Australian Stock Exchange, made 2.2 cents a litre on all the products it sold in 2006.

The biggest beneficiary of the high cost of petrol is the Government, not petrol companies



Retail and wholesale margins \$4

Typical medium sized car. Figures representative of capital cities except Brisbane

The least scrutinised component of petrol pricing is government tax. Despite capping the fuel excise at 38.143 cents a litre, as world prices increase the federal government takes a larger chunk of your petrol dollar. When the pump price is \$1.35 a litre in addition to excise the price includes 10% GST or 12.35 cents a litre.

From a typical tank of petrol **less than 6 per cent is profit**, 53 per cent is production cost and 41 per cent is state and federal government tax.

Further threats to cheap petrol

When you are in a hole, why keep digging?

Government inquiry after government inquiry has not found any collusion between the 'Big Oil' companies. But still the federal government is establishing a full-time national Petrol Commissioner to report to the Chairman of the Australian Competition and Consumer Commission.

Are there more price rises to come?

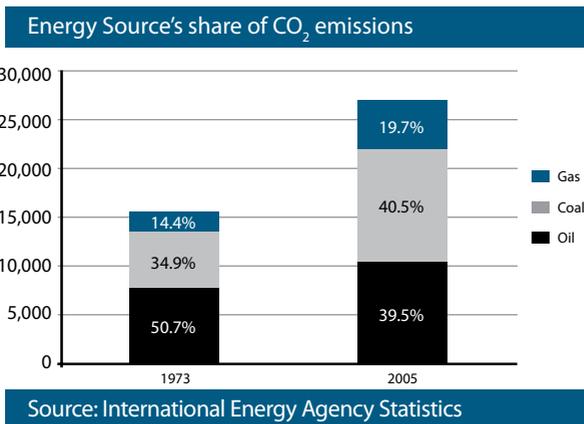
Currently government is obsessed with reducing Australia's carbon footprint. During the election campaign the ALP promised to establish a carbon trading scheme to 'enable the market to set a price on carbon'.

A carbon trading scheme allows for permits for carbon dioxide emissions to be traded. The price is set by the market based on supply versus demand. The price of the permit is then passed on to the customer in the final product.

The objective: use less petrol, buy more fuel-efficient cars, reduce the increase in greenhouse gases in the atmosphere. But the higher the carbon price signal, the higher the cost to consumers.

A carbon price signal would increase fuel prices		
Carbon price per tonne of CO ₂	Petrol cents per litre	Diesel cents per litre
\$10	2.4	2.7
\$20	4.8	5.4
\$30	7.2	8.1
\$40	9.6	10.8
\$50	12.0	13.5

Source: Caltex



Globally, petrol's contribution to carbon dioxide emissions is going down.