

14 Financial performance of the refinery and total supply sectors

Key points

In 2010–11:

- The total supply sector earned a unit net profit across all products of 1.23 cents per litre (cpl). This represents total net profit of \$847 million on sales of 68.8 billion litres of fuel and revenues of \$48.6 billion.
 - Petrol products earned a unit net profit of 1.66 cpl, or total net profit of \$430 million on sales of 25.8 billion litres of petrol products and revenues of \$18.3 billion.
 - Diesel unit net profit was 1.83 cpl, or total profit of \$516.2 million on sales of 28.2 billion litres of diesel and revenues of \$20.7 billion.
- The refinery sector earned a unit net profit across all products of 0.91 cpl. This represents total net profit of \$348 million on sales of 38.2 billion litres of fuel and revenues of \$26.4 billion.
 - Petrol products in the refinery sector earned unit net profit of 0.97 cpl, or \$159.5 million on sales of 16.4 billion litres of petrol products and revenues of \$11.5 billion.
 - Diesel in the refinery sector earned unit net profit of 2.65 cpl, or \$334.5 million on sales of 12.6 billion litres of diesel and revenues of \$9.1 billion.

14.1 Overview of financial performance in the refinery and total supply sectors

The financial performance of the overall downstream industry was discussed in chapter 13. Chapters 14 and 15 cover specific sectors of the downstream industry. This chapter reports on the refinery and total supply sectors.

Refinery is a sub-sector of the total supply sector; its importance to the overall downstream industry warrants a separate analysis. As noted in chapter 13, revenues, costs and profits of the refinery and total supply sectors are reported on a historical cost basis.

In 2010–11, the profitability of the refinery sector across all major product categories, including petrol and diesel, was below the average from 2002–03 to 2010–11 (table 14.1). Sales volumes in 2010–11 were similar to the long-term average.

Table 14.1 Sales and profits in the refinery sector: 2010–11 and average from 2002–03 to 2010–11

		2010–11	2002–03 to 2010–11 average
All products	Sale volumes (ML)	38 187	38 002
	EBIT (\$ million)	348	743
	Unit EBIT (cpl)	0.91	1.96
Petrol	Sales volumes (ML)	16 376	16 219
	EBIT (\$ million)	159	438
	Unit EBIT (cpl)	0.97	2.70
Diesel	Sales volumes (ML)	12 604	12 038
	EBIT (\$ million)	335	515
	Unit EBIT (cpl)	2.65	4.28

Sources: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

The overall financial performance of the total supply sector in 2010–11 was above the average for the period 2002–03 to 2010–11 (table 14.2). However, the profitability of petrol products was lower than the long-term average.

Table 14.2 Sales and profits in the total supply sector: 2010–11 and average from 2002–03 to 2010–11

		2010–11	2002–03 to 2010–11 average
All products	Sale volumes (ML)	68 753	65 559
	EBIT (\$ million)	847	711
	Unit EBIT (cpl)	1.23	1.10
Petrol	Sales volumes (ML)	25 817	26 709
	EBIT (\$ million)	430	482
	Unit EBIT (cpl)	1.66	1.80
Diesel	Sales volumes (ML)	28 189	24 056
	EBIT (\$ million)	516	513
	Unit EBIT (cpl)	1.83	2.13

Sources: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

The rest of this chapter considers the performance of both the refinery and total supply sectors in detail and analyses the performance of each sector at a number of levels, including by:

- total sector performance, for all products
- results for the suite of petrol products
- results for individual products.

14.2 The refinery sector—revenues, costs and profits, all products

The refinery sector in Australia consists of seven refineries (see chapter 3). Each refinery refines crude oil into petrol, diesel and a range of other petroleum products. The product mix at refineries depends on their configuration and their equipment as well as the type of crude oil used.

Australian refineries are by international standards technically sophisticated but small, particularly when compared to the new large Asian refineries.²⁷¹

14.2.1 Refinery sector: revenues and costs, all products

Revenues, costs and profits in both the refinery and total supply sectors tend to be volatile due to the effects of changes in international prices of crude oil and refined petrol and in exchange rates. These industries are also capital-intensive and experience high investment costs at various times. Consequently, less emphasis is placed on annual changes in financial performance.

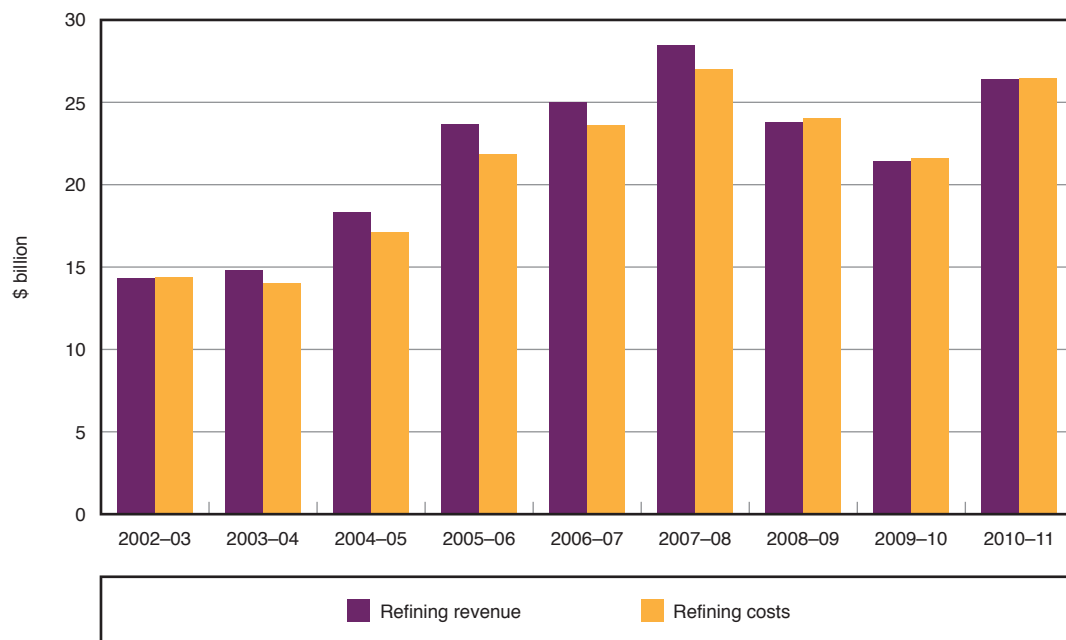
The main sources of revenue from petroleum refining are the production and sale of petrol, diesel, aviation gas and other products such as liquefied petroleum gas and bitumen. The major cost component for any refinery is crude oil, which can be in excess of 90 per cent of the total cost of goods sold and other expenses. Other major costs include maintenance, transport and wages.

In 2010–11, the refinery sector's total revenue and costs were both just over \$26 billion (chart 14.1). Both revenue and costs were higher than in 2009–10. The increase in revenues was associated with higher international prices for refined petroleum products and increased output (volume). The increase in costs was due to higher production volumes and prices of crude oil.

Refinery sector volumes in 2010–11 were 38 187 million litres; the highest level of output since 2006–07.

271 Australian Institute of Petroleum, *Downstream petroleum 2009*, Canberra.

Chart 14.1 Refinery sector revenues and costs, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.2.2 Refinery sector: total and unit net profits, all products

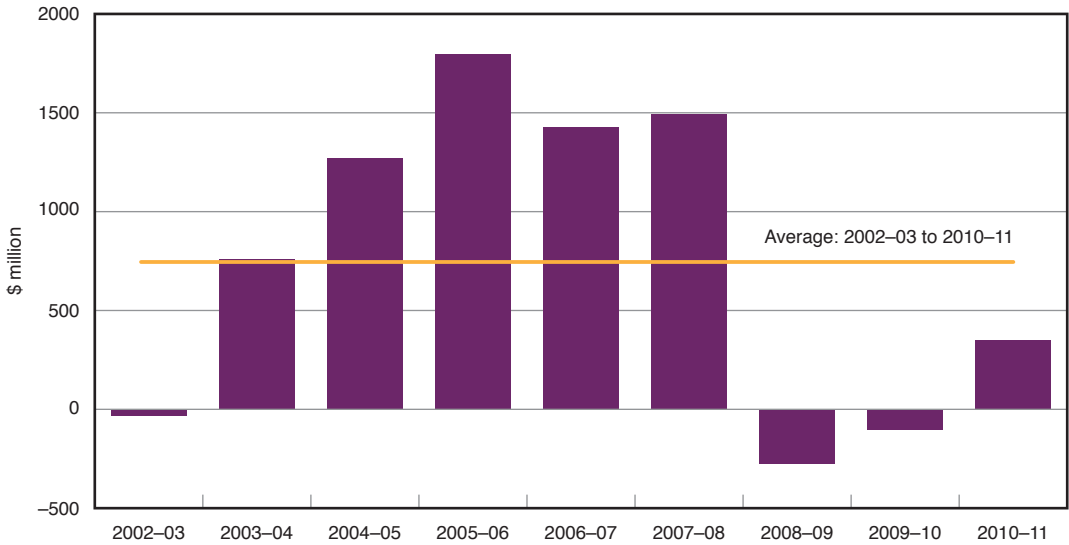
As outlined in chapter 13, a number of profitability measures have been used for the downstream petroleum industry and their sectors. The key measure is adjusted EBIT (net profit), which represents net earnings from the perspective of shareholders.

Chart 14.2 displays net profit for all refineries from 2002–03 to 2010–11. Points from the chart include:

- A net profit of \$348 million in 2010–11 follows two years of losses.
- The net profit result for 2010–11 is lower than the average net profit for the period 2002–03 to 2010–11 of \$743 million.²⁷²
- The results for the past three financial years were below the profitability levels over the period 2003–04 to 2007–08.

²⁷² As noted, profitability in the refinery sector is volatile. It is significantly impacted by changes in the international price of crude oil, exchange rate movements and major capital investments.

Chart 14.2 Refinery sector net profit, all products: 2002–03 to 2010–11

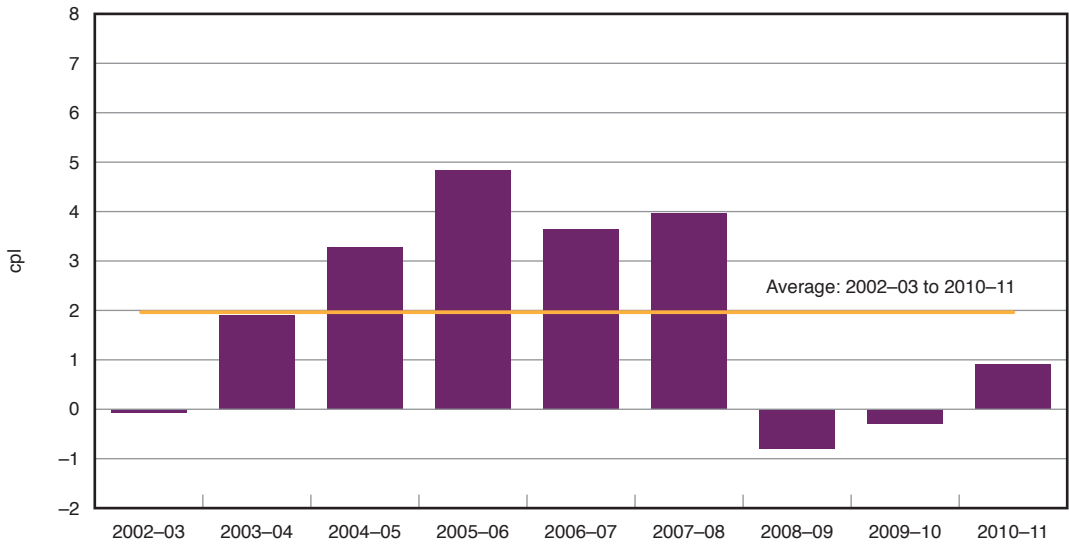


Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

Chart 14.3 shows unit net profit measured in cents per litre (cpl) for all Australian refineries for each year from 2002–03 to 2010–11. Refinery sector unit net profits are calculated by dividing total net profit by volumes.

Unit net profit for the refinery sector in 2010–11 was 0.91 cpl. The average unit net profit for the period 2002–03 to 2010–11 was 1.96 cpl.

Chart 14.3 Refinery sector unit net profit, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

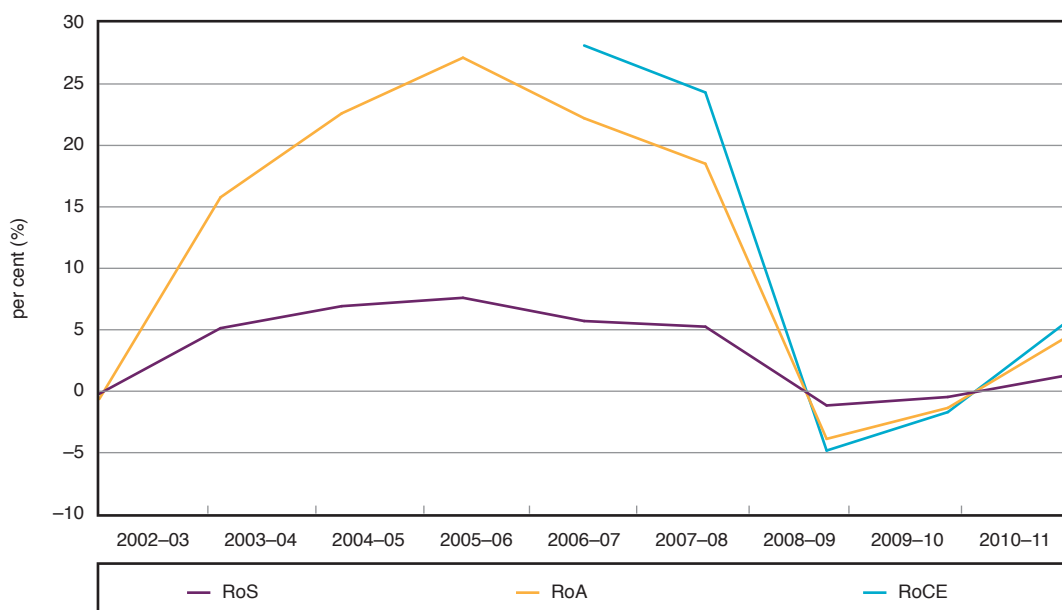
14.2.3 Refinery sector: other key performance indicators, all products

This section presents other profit key performance indicators (KPIs) for the refinery sector. The KPIs considered are: return on sales (RoS), return on assets (RoA) and return on capital employed (RoCE). See box 13.1 for further details on KPIs used in this chapter.

Chart 14.4 shows these KPIs for the period 2002–03 to 2010–11 (RoCE is shown for 2006–07 to 2010–11). Points from the chart include:

- RoS during 2010–11 was 1.3 per cent. This is below its long-term average of 3.4 per cent.
- RoA and RoCE were 4.5 and 5.8 per cent respectively and below their long-term averages of 11.4 per cent and 13.2 per cent.

Chart 14.4 Refinery sector return on sales, return on assets and return on capital employed, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.3 Refinery sector: revenues, costs and profits—petrol products

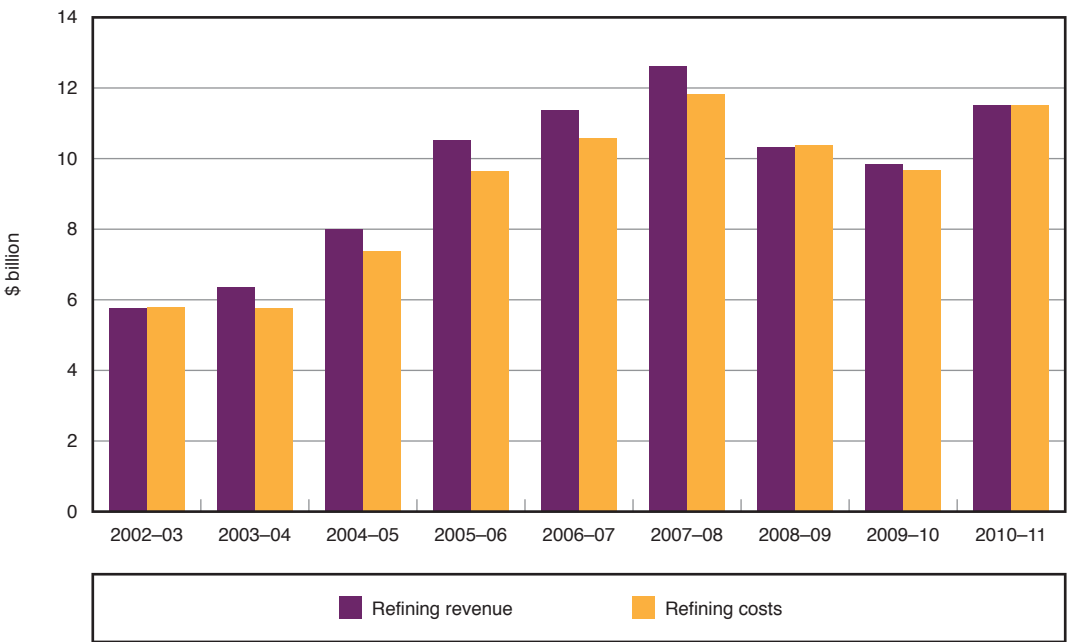
The previous section discussed overall revenues, costs and profits associated with the refining of all petroleum products at Australian refineries. This section discusses the revenues, costs and profits associated with the refining of petrol products only. Petrol products are: regular unleaded petrol (RULP), premium unleaded petrol (PULP) and ethanol blended petrol (EBP).

14.3.1 Refinery sector: revenues and costs, petrol products

Chart 14.5 displays the total revenues and costs associated with the production of petrol products at Australian refineries. Petrol revenues increased by 17 per cent from 2009–10 while costs increased by 19 per cent.

In 2010–11, total refinery sector petrol volumes increased by 7 per cent from 2009–10 to about 16 billion litres.

Chart 14.5 Refinery sector, revenues and costs, petrol products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

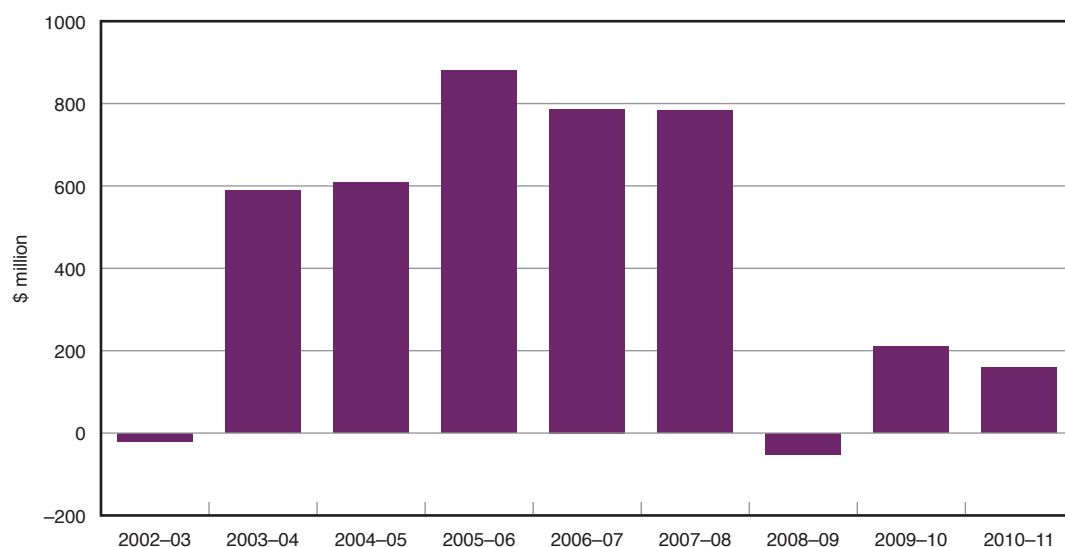
14.3.2 Refinery sector: total and unit net profit, petrol products

The most important products by volume at Australian refineries are RULP, PULP and diesel. As outlined in chapter 6, EBP is produced at terminals where refined petrol is blended with ethanol. In 2010–11, these products represented about 75 per cent of all volumes produced at Australian refineries.

The ACCC has estimated total and unit net profits for petrol products and diesel for the Australian refinery sector. These net profits are calculated on the basis of standard accounting methodologies and represent net earnings on these products accruing to shareholders.

Chart 14.6 displays net profit on petrol products for all Australian refineries from 2002–03 to 2010–11. In 2010–11 net profit for petrol was \$159 million. This was around \$279 million below the average net profit for petrol products for the period 2002–03 to 2010–11.

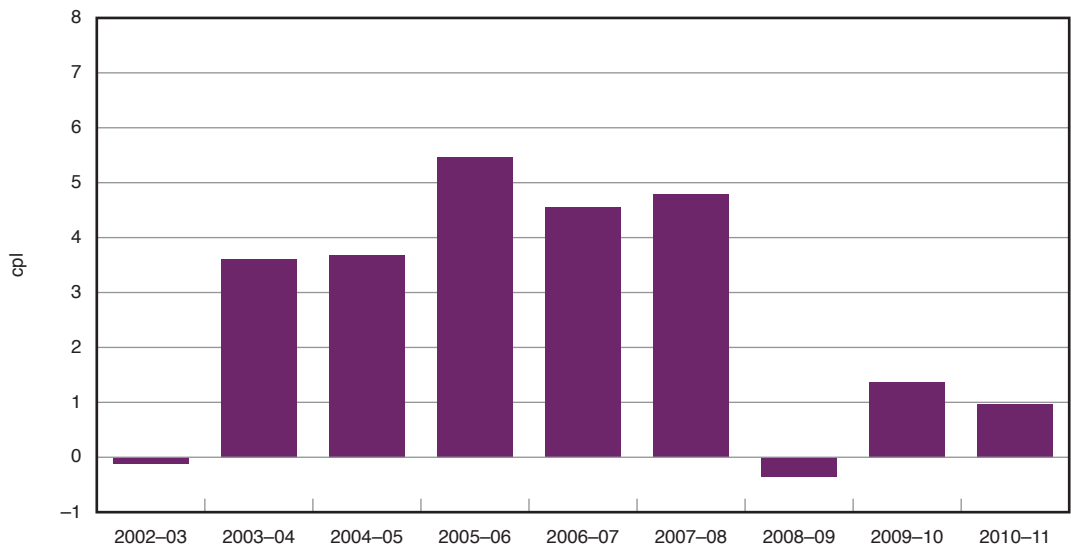
Chart 14.6 Refinery sector net profit, petrol products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

Chart 14.7 shows unit net profit for petrol products for the period 2002–03 to 2010–11. Unit net profit on petrol in Australian refineries was 0.97 cpl in 2010–11, compared with the average unit net profit over the period 2002–03 to 2010–11 of 2.70 cpl.

Chart 14.7 Refinery sector unit net profit, petrol products: 2002–03 to 2010–11



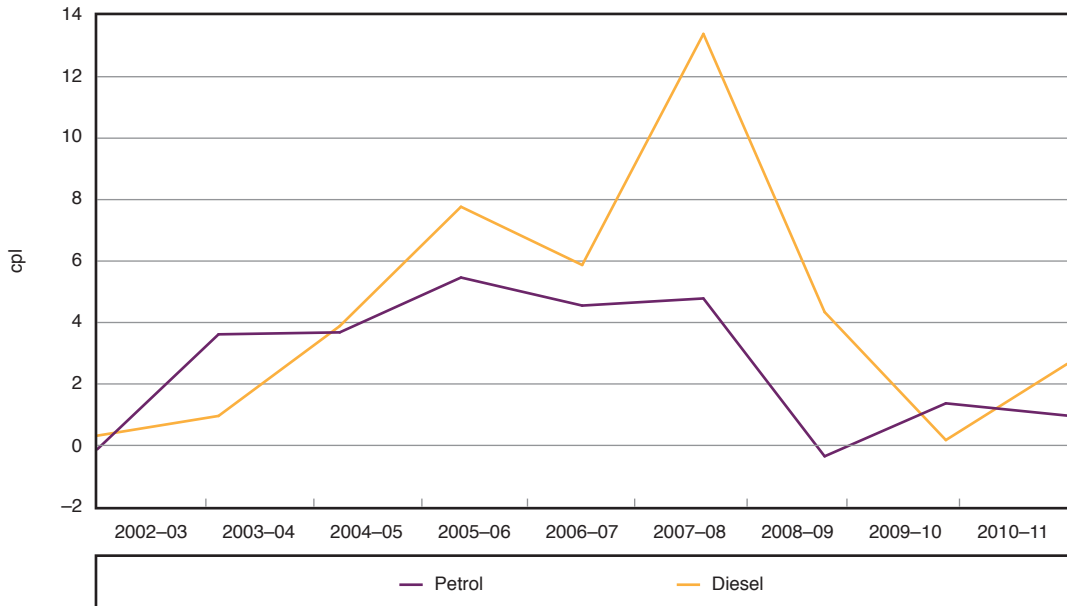
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.3.3 Refinery sector: comparison between unit petrol and unit diesel net profits

Chart 14.8 provides a comparison of unit petrol and unit diesel net profits for the period 2002–03 to 2010–11. The following points arise from this chart:

- In 2010–11, diesel unit net profits were 2.65 cpl.
- Unit net profits on diesel have in general been higher than petrol.
- Since 2002–03, the average unit net profit for petrol has been 2.70 cpl and for diesel 4.28 cpl.
- The largest difference in unit net profit between diesel and petrol occurred in 2007–08, when unit net profits for petrol were 4.78 cpl and for diesel 13.39 cpl.
- The difference in unit profit between petrol and diesel for 2010–11 was 1.68 cpl. On average, diesel was 1.58 cpl higher than petrol over the period 2002–03 to 2010–11.

Chart 14.8 Refinery sector unit net profits, petrol and diesel: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.4 Refinery sector product mix

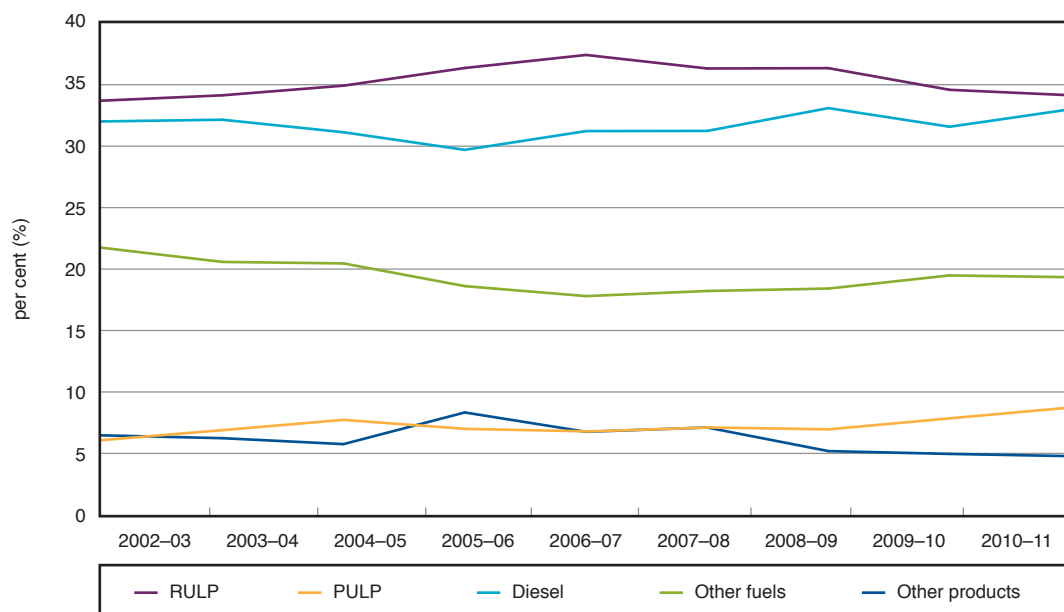
As outlined in the previous section, RULP, PULP and diesel account for a large share of production at Australian refineries.

Chart 14.9 displays the production mix from Australian refineries from 2002–03 to 2010–11.

Observations from this chart include:

- Overall, the mix of products produced at Australian refineries has not changed substantially since 2002–03, the only exception being PULP, which increased its share of output volumes from 6 per cent to 9 per cent. The increase in PULP's share is not unexpected. PULP is increasingly the fuel of choice for new cars. As noted in chapter 6, the ethanol mandate in NSW may have also had the effect of reducing availability of RULP and thus stimulated demand for PULP.
- In 2010–11, RULP accounted for 34 per cent of total production, just above diesel at 33 per cent.

Chart 14.9 Refinery sector production mix: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.5 Refinery capacity utilisation rates

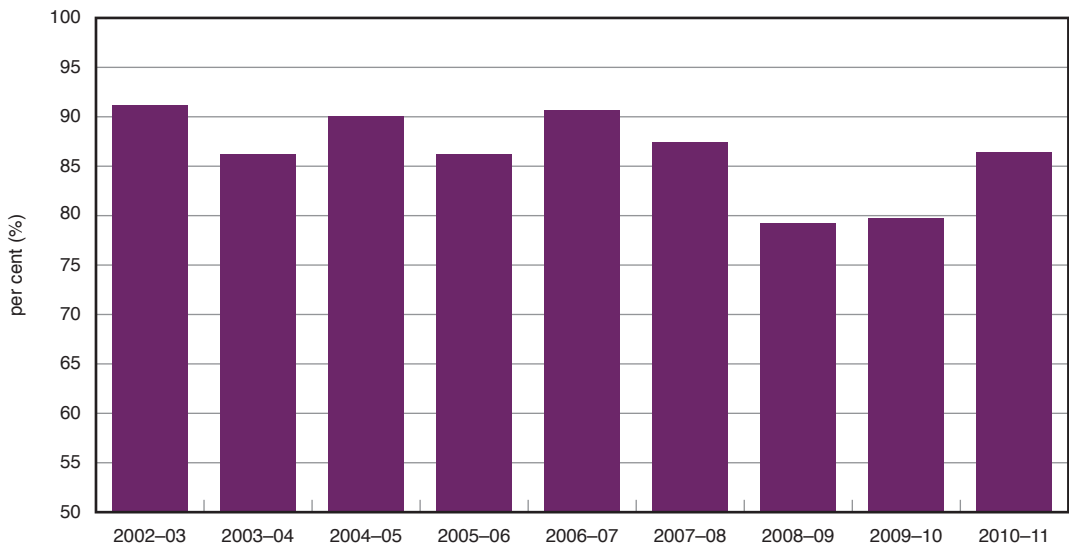
The ACCC has used data provided by Australian refiners to derive refinery capacity utilisation rates. Utilisation rates measure the percentage of a company's production capacity that is actually used in production during a year. A refinery's utilisation rate shows the extent to which its capacity has been used to process crude oil and refined petroleum products.

Generally, refineries do not operate at 100 per cent utilisation rate as production processes require down-time for regular maintenance and upgrades. Furthermore, production disruptions such as fires, floods and other unscheduled incidents also reduce utilisation rates. For example, Caltex stated that their refinery operations in the first half of 2011 were affected by the 'impact of unplanned outages, extension of planned maintenance, and extreme weather events'.²⁷³

Chart 14.10 displays the total Australian refinery utilisation rate for the period 2002–03 to 2010–11. This chart shows that utilisation rate for Australian refineries increased in 2010–11 to 87 per cent, from just below 80 per cent in 2009–10. The 2010–11 utilisation rate was approximately equal to the average for the period 2002–03 to 2010–11.

273 Caltex, 'Strong marketing performance continues despite challenging refining environment', press release, 23 August 2011, at <http://www.caltex.com.au/LatestNews/Pages/NewsItem.aspx>, accessed 30 November 2011.

Chart 14.10 Refinery sector capacity utilisation rates: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process; and AIP *Downstream Petroleum* reports.

14.6 Refinery sector: comparison of KPIs with other industries in Australia

The ACCC has developed a number of benchmark KPIs for comparing Australian refineries with other selected Australian industries. As outlined in section 13.7, the ACCC has used the Australian Securities Exchange's top 200 (ASX200) companies by market capitalisation to compile profitability KPIs for all industries and selected manufacturing industries, such as chemicals, beverages and building products.

Two KPIs are used for these comparative purposes: RoS and RoA. The caveats discussed in chapter 13 about comparing the profitability of various industries using standard KPIs also apply in this section.

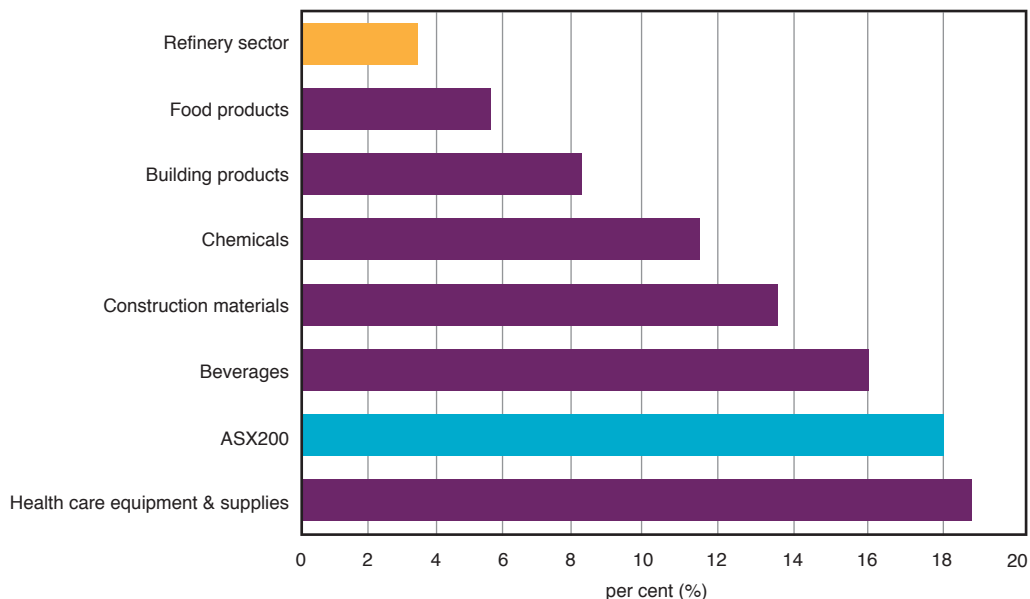
14.6.1 Australian manufacturing industry comparison: return on sales, all products

Chart 14.11 presents average RoS for the period 2002–03 to 2010–11 for the Australian refinery sector and other selected manufacturing industries. Observations from the chart include:

- Australian refineries have the lowest average rate of return compared to the selected industries. The overall average RoS for refineries was 3.4 per cent.
- The next closest selected manufacturing industry was food products with 5.6 per cent return on sales.

Refining is regarded as a high-volume and low-margin activity. Companies in these types of industries will generally have lower returns on sales than firms in a low-volume, high-margin industry.

Chart 14.11 Average return on sales for refinery sector and other manufacturing industries in the ASX200: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process, Bloomberg and Bureau van Dijk Orbis database.

Notes: The list of companies in the ASX200 is as at 21 September 2011.

The list of companies is less than 200: for the specific industries, companies with RoS of more than 70 per cent (positive and negative) in any year have been excluded; Caltex and non-manufacturing companies have also been excluded.

Not all companies have data for all years. Some companies report on a calendar-year or other financial-year basis. Industries are grouped using the Global Industry Classification Standard (GICS) and include at least two companies.

14.6.2 Australian manufacturing industry comparison: return on assets, all products

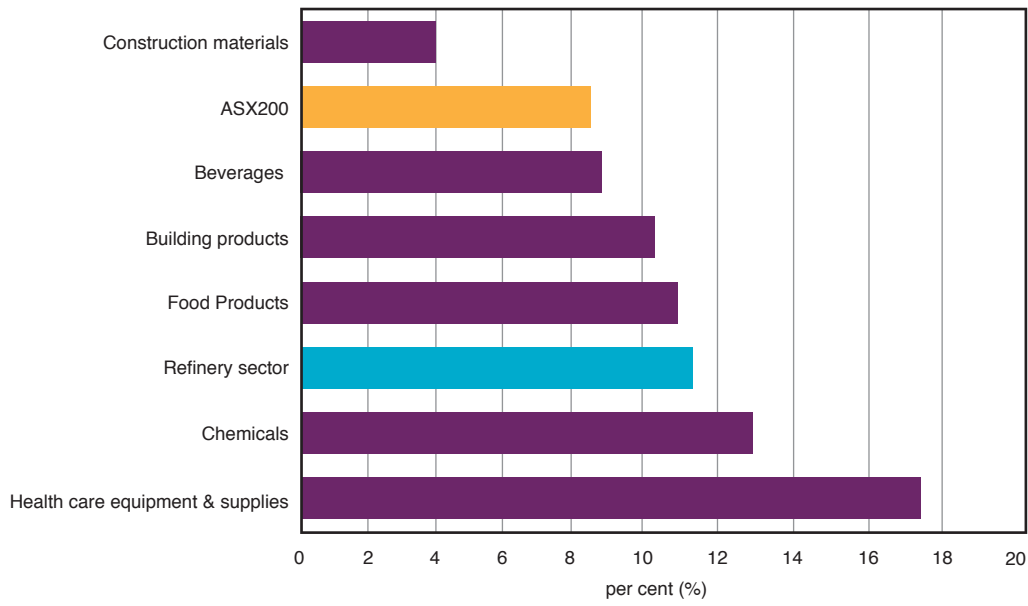
This section compares the rate of RoA in the Australian refinery sector with other selected manufacturing industries. Compared with the limitations of a measure such as RoS for a low-margin, high-volume industry, RoA provides a clearer indication of relative profitability.

However, results of analysis of comparative RoA data must be treated with caution. Asset data is based on depreciated historical cost values provided to the ACCC by the monitored companies. The values of these assets are not market-based as they are not generally traded in a liquid market. Estimates of return on assets are affected by the use of different asset valuation approaches and by the asset age profile. For example, all else equal, a company with old assets valued on the basis of depreciated historical cost will generally have a smaller asset base than a company which either values assets on a replacement-cost basis or which has a younger asset age profile. Some assets in the Australian downstream petroleum industry, particularly in the refinery sector, may have a higher than average age profile.

Chart 14.12 presents average RoA for the period 2002–03 to 2010–11. Points from the chart include:

- On average, domestic refineries have higher average rates of RoA than the ASX200 average.
- Manufacturing industries with the highest average RoA over the period were health-care equipment and supplies, and chemicals, with 17.7 per cent and 12.7 per cent, respectively.

Chart 14.12 Average return on assets for refinery sector and other manufacturing industries in the ASX200: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process. Bloomberg and Bureau van Dijk Orbis database.

Notes: The list of companies in the ASX200 is as at 21 September 2011.

The list of companies is less than 200: for the specific industries, companies with RoA of more than 70 per cent (positive and negative) in any year have been excluded; Caltex and non-manufacturing companies have also been excluded.

Not all companies have data for all years. Some companies report on a calendar-year or other financial-year basis. Industries are grouped using the Global Industry Classification Standard (GICS) and include at least two companies.

14.7 Total supply sector

The total supply sector covers all refinery operations, imports of refined product and the buying and selling of petroleum products between the refiner-marketers through buy–sell arrangements. In addition, the total supply sector exports refined product. As previously noted, the refinery sector is a sub-sector of total supply.

Other activities for the total supply sector include the coordination of crude imports for refining and the coordination of imported refined product for distribution (including for those situations when there are refinery disruptions or shutdowns).

Although all refiner-marketers conduct supply activities, not all have a separate supply sector. For these refiner-marketers, some of the supply activities are combined with the refinery operations and/or combined with the wholesale sector. Furthermore, those refiner-marketers which have a supply sector do not necessarily operate it as a cost centre.

For the purpose of reporting data for all companies on a consistent basis, the ACCC has adopted the concept of a separate total supply sector within the downstream petroleum industry. Without a common approach based on a separate supply section, and a four-sector split, the analysis of other sectors would have been complicated by the fact that some companies place supply activities in other sectors.

It must be noted that some of the revenue and cost data supplied by companies for the total supply sector were based on allocations not normally reported in their accounting systems. Any assessment and conclusions drawn from the analysis of the total supply sector should be treated with caution and should only be used with the caveats outlined above.

14.8 Total supply sector: revenues, costs and profits – all products

14.8.1 Total supply revenues and costs, all products

Total supply revenues are normally derived from the sale of petroleum products including petrol, diesel, aviation fuel and bitumen. Revenue is also earned from the exporting of refined product, although this is not substantial.

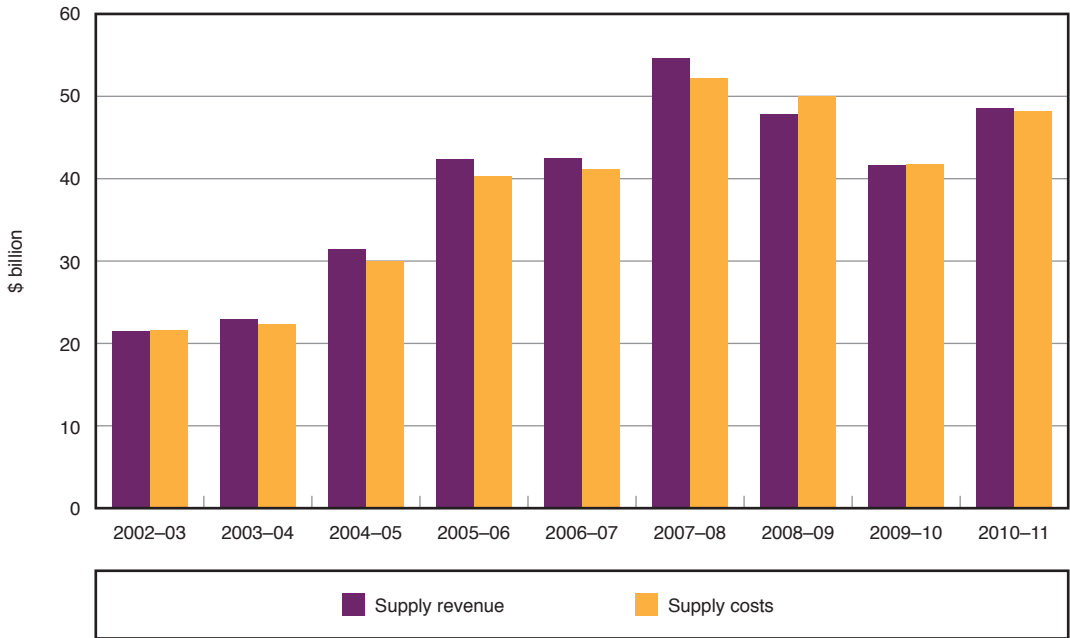
Costs in total supply normally relate to the purchases of crude oil, imported refined product and the costs associated with buy–sell transactions. Other costs, such as the net gain or loss on foreign exchange transactions, can also be substantial (such as occurred in 2008–09—see section 14.11 for further details).

Total supply revenues and costs are displayed in chart 14.13. Total revenue for 2010–11 was \$49 billion, while costs rose to \$47 billion.

As the supply sector is typically involved in importing, buying and selling crude oil and refined petrol, prices of its products are closely linked to relevant international benchmark prices. In this sector, prices—and thus revenues (and costs)—generally follow international benchmark prices.

Total supply volumes increased by 3.4 per cent in 2010–11. This was the third-largest increase over the past eight years. The largest was 5.1 per cent in 2007–08.

Chart 14.13 Total supply sector revenues and costs, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

14.8.2 Total supply sector: total and unit net profits, all products

Chart 14.14 shows net profit for the total supply sector for all petroleum products from 2002–03 to 2010–11. After the losses of the past two years, net profit was \$847 million in 2010–11 compared with the average net profit of \$711 million for the period 2002–03 to 2010–11.

Chart 14.14 Total supply sector net profit, all products: 2002–03 to 2010–11

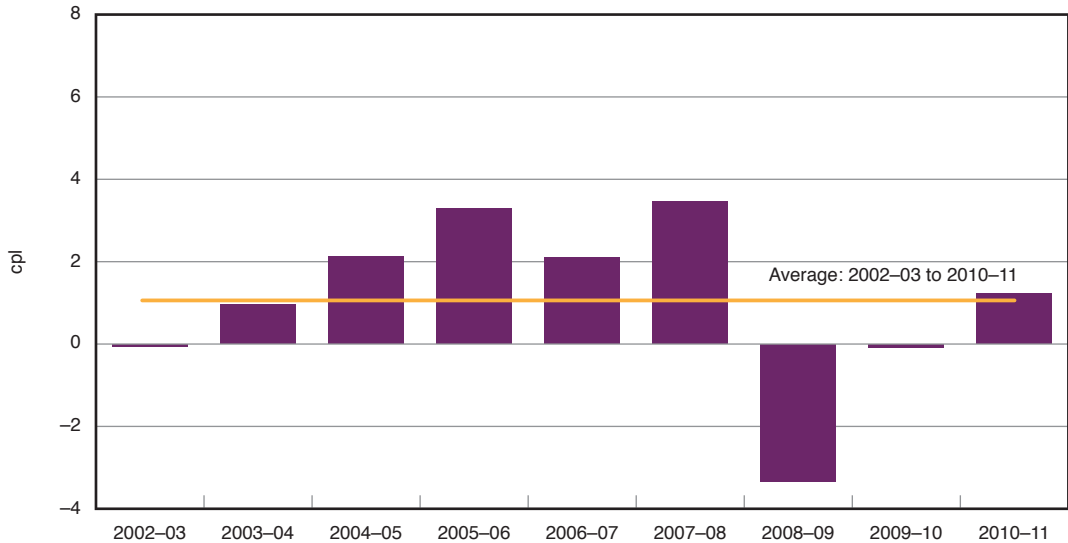


Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

Unit net profits represent total net profit for all petroleum products divided by total volume, after the elimination of inter-company volume transfers.

In 2010–11, total supply unit net profit was 1.23 cpl (chart 14.15). This is just above the average unit net profit over the period 2002–03 to 2010–11 of 1.08 cpl.

Chart 14.15 Total supply sector unit profit, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.8.3 Total supply sector: other key performance indicators, all products

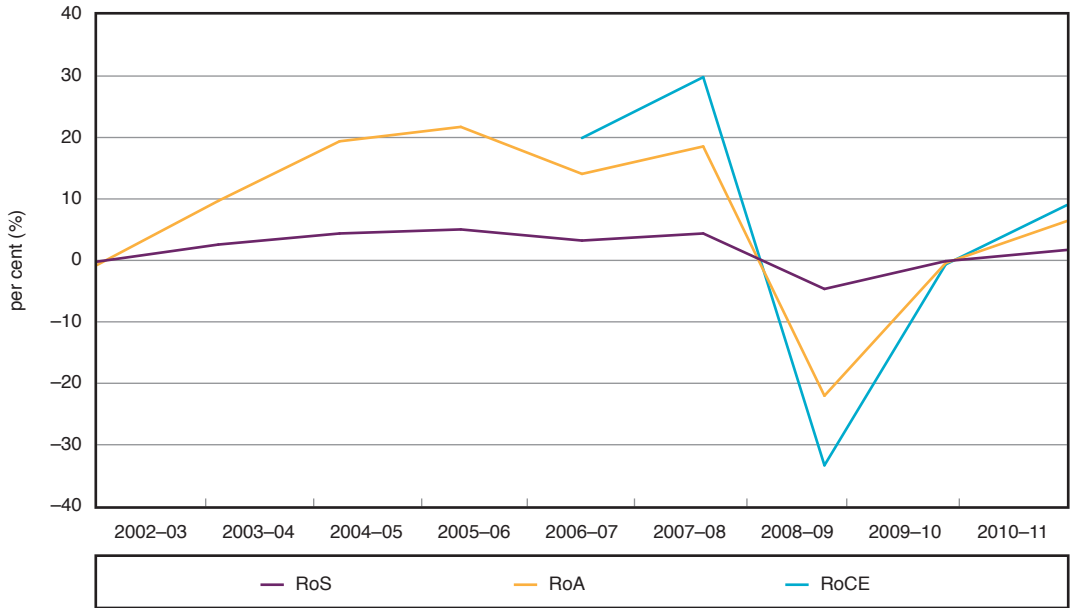
This section presents three other profit KPIs for the total supply sector: return on sales (RoS), return on assets (RoA) and return on capital employed (RoCE).

Chart 14.16 shows these three profit KPIs for the period 2002–03 to 2010–11.

Total supply sector RoS for 2010–11 was 1.7 per cent, which is marginally below its long-term average of 1.8 per cent. The RoA was around 6.4 per cent, which is just below its long-term average of 7.4 per cent. Both these KPIs were closer to the long-term average in 2010–11 than in any of the past nine years.

RoCE was 9.0 per cent, above the average of 6.0 per cent for the past five years.

Chart 14.16 Total supply sector return on sales, return on assets and return on capital employed, all products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.9 Total supply sector: revenues, costs and profits—petrol products

This section discusses the profits derived from the sale of petrol products alone. The above caveats on the total supply sector and the allocation of expenses should be considered carefully when assessing petrol profits in the total supply sector.

14.9.1 Total supply sector: revenues and costs, petrol products

Total revenues and costs for petrol in the total supply sector are shown in chart 14.17.

In 2010–11, petrol revenues and costs increased by 7 per cent and 6 per cent respectively. Total petrol revenues and costs were both \$18 billion.

Total supply petrol volumes fell by 2.8 per cent to 25 817 ML in 2010–11. While RULP volumes decreased by 10.9 per cent to 17 155 ML, this was offset by an 11 per cent increase in PULP volume.

Chart 14.17 Total supply sector revenues and costs, petrol products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

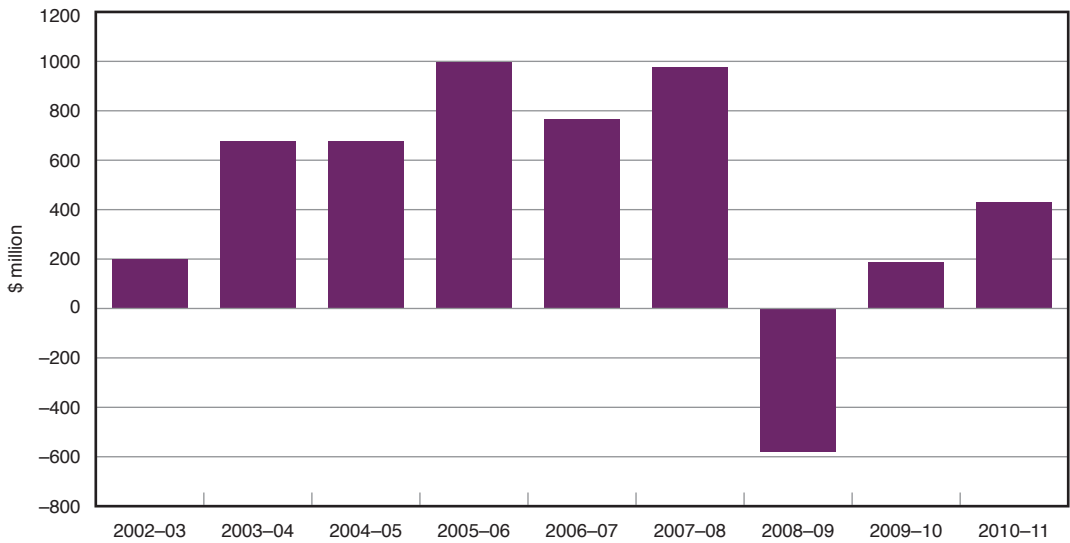
14.9.2 Total supply: total and unit net profit, petrol products

Estimates of total and unit net profits for petrol for the total supply sector represent net earnings on petrol products accruing to shareholders. These earnings have been calculated using standard accounting methodologies.

Chart 14.18 displays net profit for petrol products in the total supply sector for the period 2002–03 to 2010–11.

This chart indicates that in 2010–11, net profit on petrol products was \$430 million. This compares with the average of \$481 million for the period 2002–03 to 2010–11.

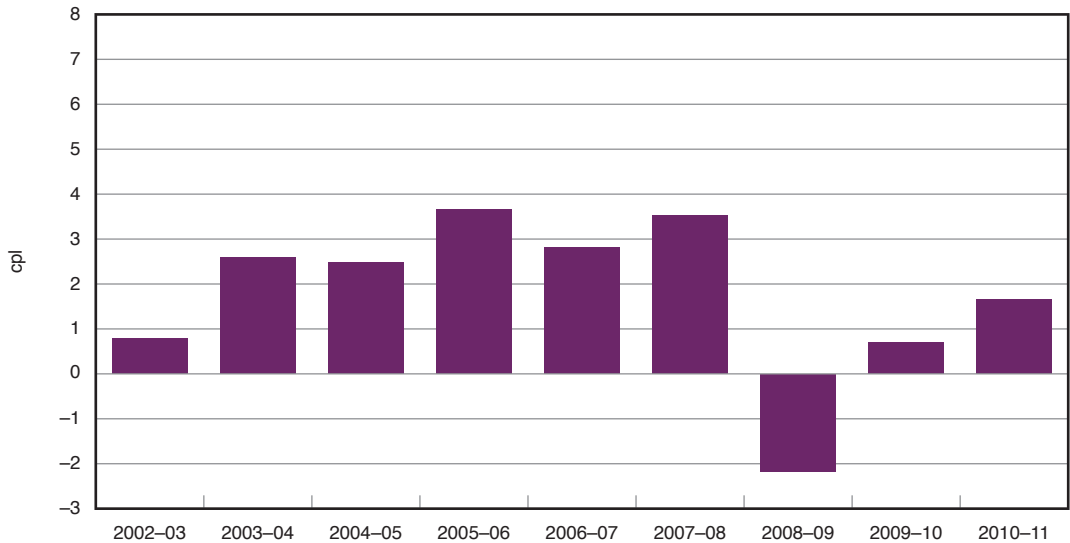
Chart 14.18 Total supply sector net profit, petrol products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

Chart 14.19 shows unit net profit per litre (cpl) on petrol products for the total supply sector for the period 2002–03 to 2010–11. In 2010–11, unit net profit was 1.66 cpl, compared with the average over the period 2002–03 to 2010–11 of 1.8 cpl.

Chart 14.19 Total supply sector unit net profit, petrol products: 2002–03 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

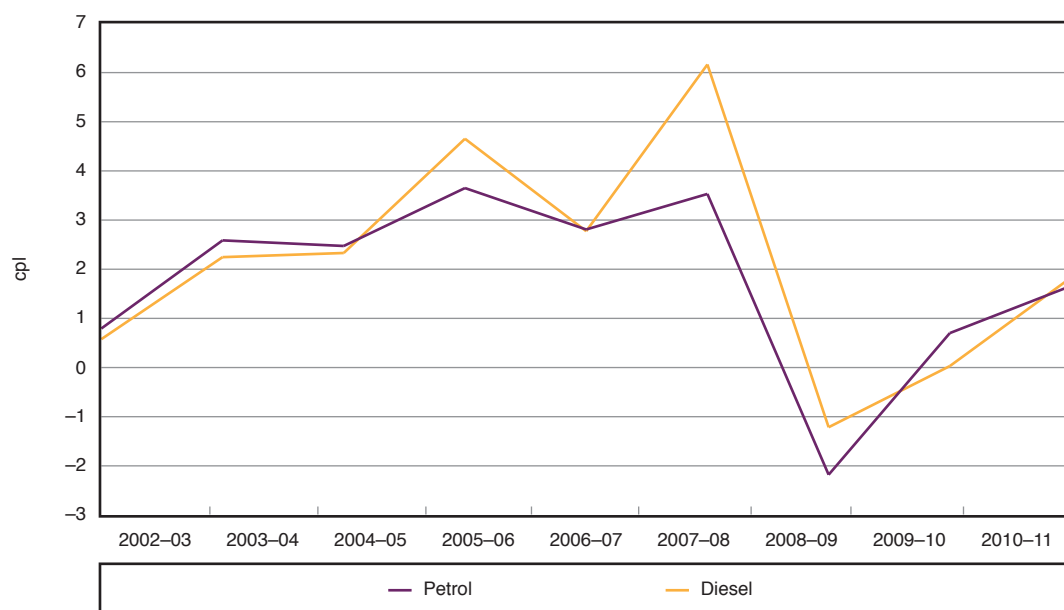
14.9.3 Total supply sector: comparison between petrol and diesel unit net profits

This section assesses and compares the relative unit net profits of petrol and diesel products. As was the case in the refinery sector, the two most important products in the total supply sector are petrol and diesel products. In the nine years to 2010–11, their share of volumes in the total supply sector has ranged from 74 per cent to 80 per cent.

Chart 14.20 displays a comparison of petrol and diesel unit net profit for the period 2002–03 to 2010–11. Points from the chart include:

- Unit net profits in 2010–11 were 1.66 cpl for petrol and 1.83 cpl for diesel.
- These were similar to the long-term (2002–03 to 2010–11) average unit net profits of 1.8 cpl for petrol and 2.13 cpl for diesel.
- The largest difference between diesel and petrol unit net profit occurred in 2007–08, when diesel unit net profits were 6.17 cpl and petrol was 3.53 cpl.

Chart 14.20 Total supply sector unit net profits, petrol and diesel: 2002–03 to 2010–11



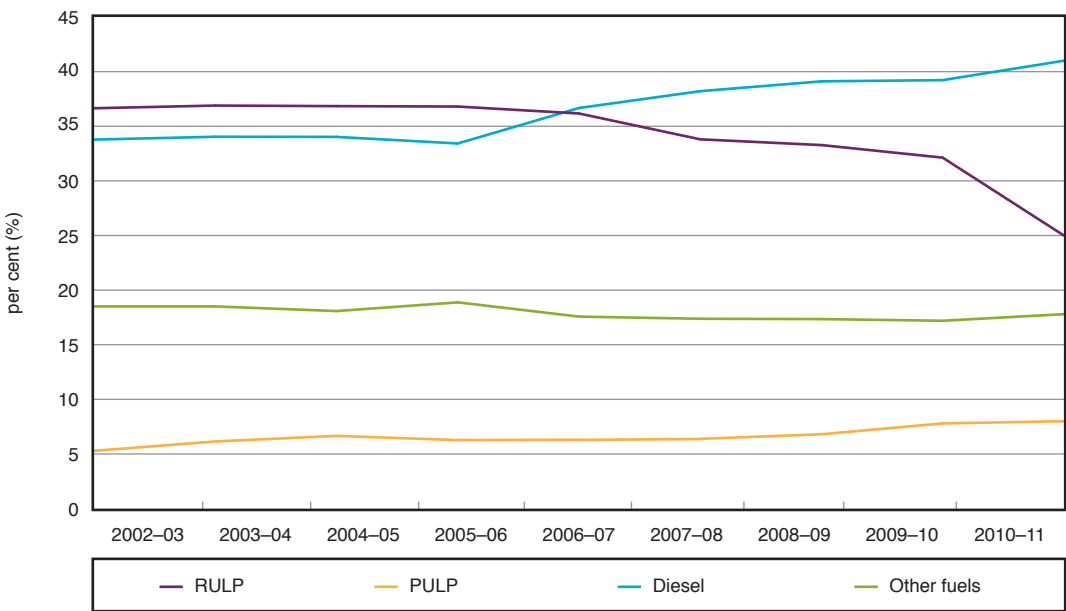
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.10 Total supply sector: product mix

The total supply sector product mix since 2002–03 is shown in chart 14.21. The product mix in total supply displays the following trends:

- Increasing share of diesel has been at the expense of RULP.
- Diesel has become the largest petroleum product supplied to the Australian market.
- Diesel’s share of total volumes in the supply sector has increased from 34 per cent in 2002–03 to 41 per cent in 2010–11.
- In contrast, RULP’s share of total supply volumes decreased from 36 per cent to 25 per cent over the same period.
- The increases in PULP volumes as a percentage of total volumes have been more modest, increasing from 5 per cent to 8 per cent, mostly due to higher demand in NSW.

Chart 14.21 Total supply sector product mix: 2002–03 to 2010–11

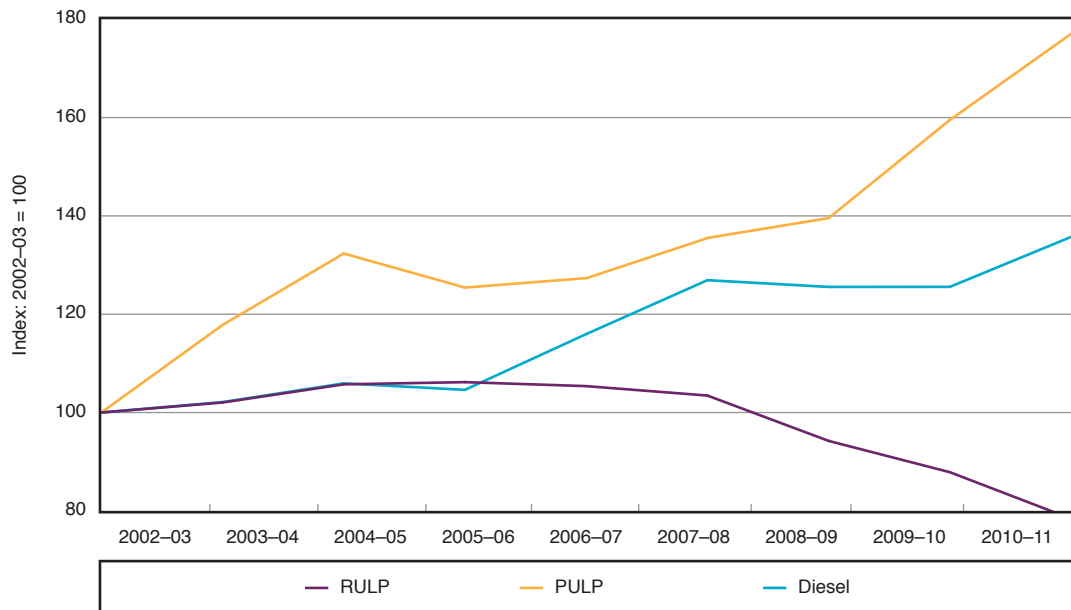


Source: ACCC calculations based on data obtained from firms monitored through the ACCC’s monitoring process.

Chart 14.22 displays rates of change in volumes of RULP, PULP and diesel since 2002–03 using an index.

Diesel has increased its volume share by 36 per cent since 2002–03, while RULP has decreased 22 per cent. PULP has shown the greatest proportionate increase in volumes, albeit from a smaller base.

Chart 14.22 Total supply sector, growth in volumes of RULP, PULP and diesel (index): 2002–03 = 100



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.11 Total supply sector: foreign exchange gains and losses

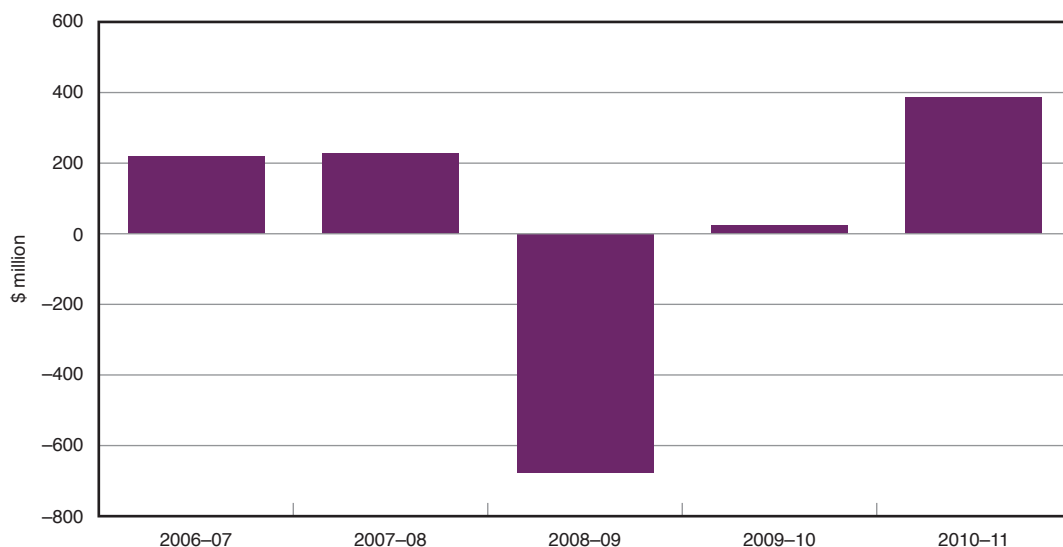
The total supply sector coordinates the purchasing of domestic and imported crude oil, and imported refined products. The majority of these purchases are normally settled in USD. The use of another currency creates the potential for gains or losses in net foreign exchange position held by the refiner-marketers.

It is understood that some refiner-marketers utilise foreign exchange derivatives to manage risks. Caltex, for instance, announced that from 1 July 2010 it would hedge 50 per cent of its USD crude oil and product payables exposure.²⁷⁴

Chart 14.23 displays foreign exchange gains and losses from 2006–07 to 2010–11. The total supply sector made a foreign exchange gain of \$385 million during 2010–11. This is a substantial turnaround from three years ago, where the net foreign exchange position for the total supply sector, was a loss of about \$680 million. This amount represented 31 per cent of the loss incurred by the total supply sector in that year.

²⁷⁴ Caltex 2010 half-year financial report, available at <http://www.caltex.com.au/InvestorCentre/Documents/2010/2010%20Half%20Year%20Report.pdf>, retrieved 28 October 2010.

Chart 14.23 Total supply sector, foreign exchange gains and losses: 2006–07 to 2010–11



Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process.

14.12 Concluding remarks on the financial performance of the refinery and total supply sectors

Key points from this chapter include:

- Net profit for the refinery sector in 2010–11 was \$348 million or 0.91 cpl.
- The average unit net profit for refining across all products over the period 2002–03 to 2010–11 was 1.96 cpl.
- Refinery sector net profit on petrol products was \$159 million (0.97 cpl) in 2010–11. The average annual unit net profit on petrol products in Australia is estimated to have been 2.7 cpl since 2002–03.
- The net profit for the total supply sector in 2010–11 was about \$847 million (1.23 cpl).
- The average unit net profit for petrol products for the total supply sector over the period 2002–03 to 2010–11 was 1.8 cpl.

14.13 Methodology note

The ACCC, in consultation with the industry, segmented the downstream industry into four sectors. Three of these sectors—refining, wholesaling and retail—directly align with the Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC06). The ANZSIC06 classes are Petroleum and Coal Product Fuel Manufacturing class 1701, Petroleum Product Wholesaling class 3321 and Fuel Retailing class 4000. The other sector is total supply. This covers refining, imports and buy–sells and is not directly aligned to any ANZSIC class.

While Australian refineries report revenues by product, it is often not possible to measure costs by product. This means that total costs must be allocated to individual products. Cost allocation is complicated by the fact that the various petroleum products are produced from the same barrel of oil and using the same refining facilities. Some companies have not provided cost splits for these reasons. As outlined in section 13.1, the ACCC has used sales volumes to prorate costs across products so that costs and profits can be estimated for each type of product.