

6 Wholesale prices

Key points

- Wholesale petrol prices in Australia are set on the basis of the import parity price (IPP).
- The IPP is calculated with reference to the international price of refined unleaded petrol plus other import costs and is a benchmark for the notional costs of importing petrol into Australia.
- The IPP has closely reflected the actual costs incurred by companies importing petrol to Australia over the five years to June 2012.
- In 2011–12, wholesale price movements continued to move in line with those of the IPP (and actual import prices).

6.1 Introduction

This chapter analyses petrol pricing in the wholesale sector, both at the point where it enters the sector and at the point where petrol moves into the retail sector.

Analysis focuses on wholesale pricing during 2011–12, and also builds on previous ACCC petrol monitoring reports.

6.2 The wholesale sector

Petrol enters the wholesale sector from domestic refineries or import terminals. There are three broad types of companies operating in the wholesale sector:

- Refiner-wholesalers: BP, Caltex, Mobil and Shell. These companies supply petrol which has been produced in domestic refineries, bought from other refiner-wholesalers through ‘buy-sell’ transactions, and imported.⁹⁶
- Independent wholesalers: including United, Neumann, Ausfuel (formerly Gull) and Liberty. These companies buy petrol from refiner-wholesalers and in some cases import themselves.
- Independent importers: a small number of companies import low volumes of petrol and sell directly to independent wholesalers.

In 2011–12 the refiner-wholesalers supplied most of Australia’s petrol.

- About 80 per cent of wholesale volumes were refined domestically, with the balance sourced through imports.
- Refiner-wholesalers imported around 70 per cent of total petrol imports. Independent importers accounted for the remaining 30 per cent, up from 5 per cent in 2007–08.⁹⁷
- Thus it is likely that the four refiner-wholesalers supplied about 95 per cent of total supplies of petrol.

⁹⁶ Buy–sell transactions allow refiner-wholesalers to purchase large volumes of petrol in some cities and regional centres where they do not operate a refinery or import terminal (refer 6.3.3 below).

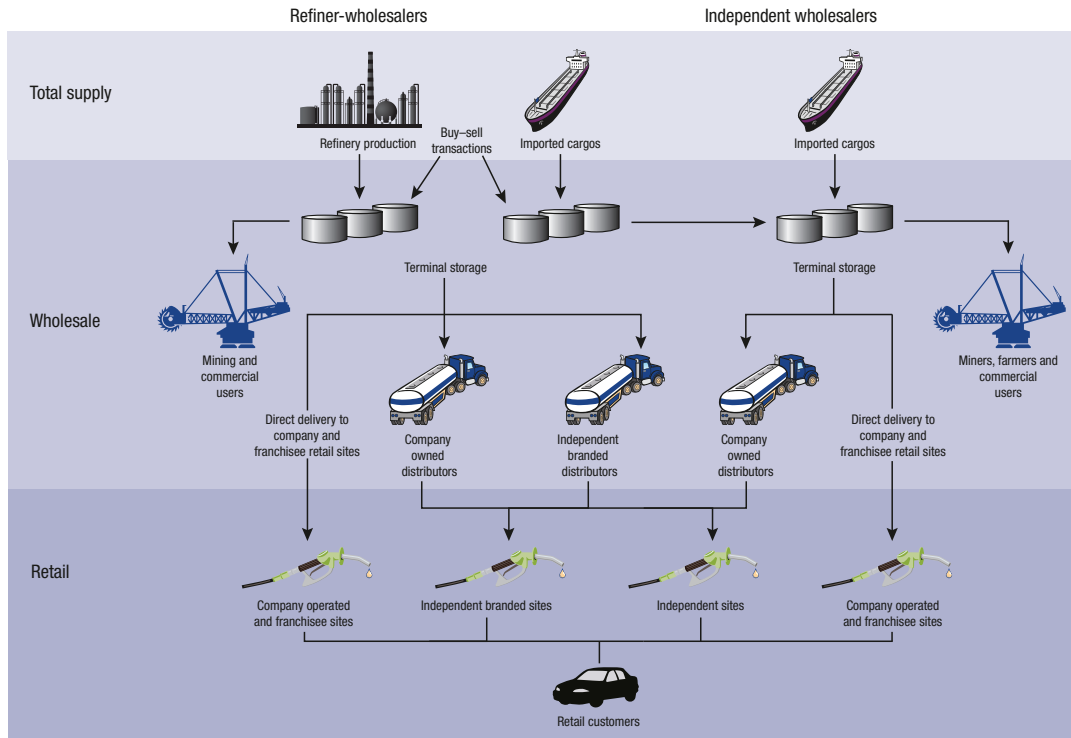
⁹⁷ Refer chapter 3 for more information.

Petrol is sold through the wholesale sector by refiner-wholesalers and independent wholesalers. Depending on their structure, these companies may sell/transfer to:

- their retail sites, franchisees and commission agents
- independent retailers
- independent wholesalers
- independent distributors and/or end-users such as miners, farmers and large commercial entities.

The role of the wholesale sector in the context of the flow of petrol through the industry is illustrated in figure 6.1 below.

Figure 6.1 Flow of petrol through sectors of the Australian petroleum industry



Source: ACCC

6.3 Wholesale price benchmarks

There are two key benchmarks used as the basis for determining wholesale prices: import parity price (IPP) and terminal gate price (TGP). Underlying both of these is the relevant international benchmark price for petrol.

6.3.1 Import parity price

The IPP is the most significant wholesale price benchmark. It is intended to reflect the cost of importing petrol. As Australia is a net importer of refined petrol, the cost of marginal supplies is the cost of imports. Refiner-wholesalers utilise a benchmark for the notional cost of importing, the IPP, as the basis for setting wholesale prices. This benchmark reflects the cost of importing petrol refined to certain specifications from and to specific locations. Therefore the IPP comprises the price of petrol in the source location refined to Australian fuel standards, plus the costs associated with transporting it to specific locations in Australia.

The IPP has three main components:

- the benchmark price of petrol at the main source of imports
- any quality premium required to account for the difference between the prices of petrol refined to Australian standards and of petrol meeting the benchmark specifications
- costs that would be incurred to import petrol, such as freight, wharfage and other incidental costs.

Singapore is the main source of petrol imported into Australia (refer table 3.2, chapter 3). The benchmark price used by the refiner-wholesalers to price regular unleaded petrol (RULP) in Australia is the Platts Singapore quote for Mogas 95 unleaded, also known as MOPS 95 (Mean of Platts Singapore for Mogas 95).

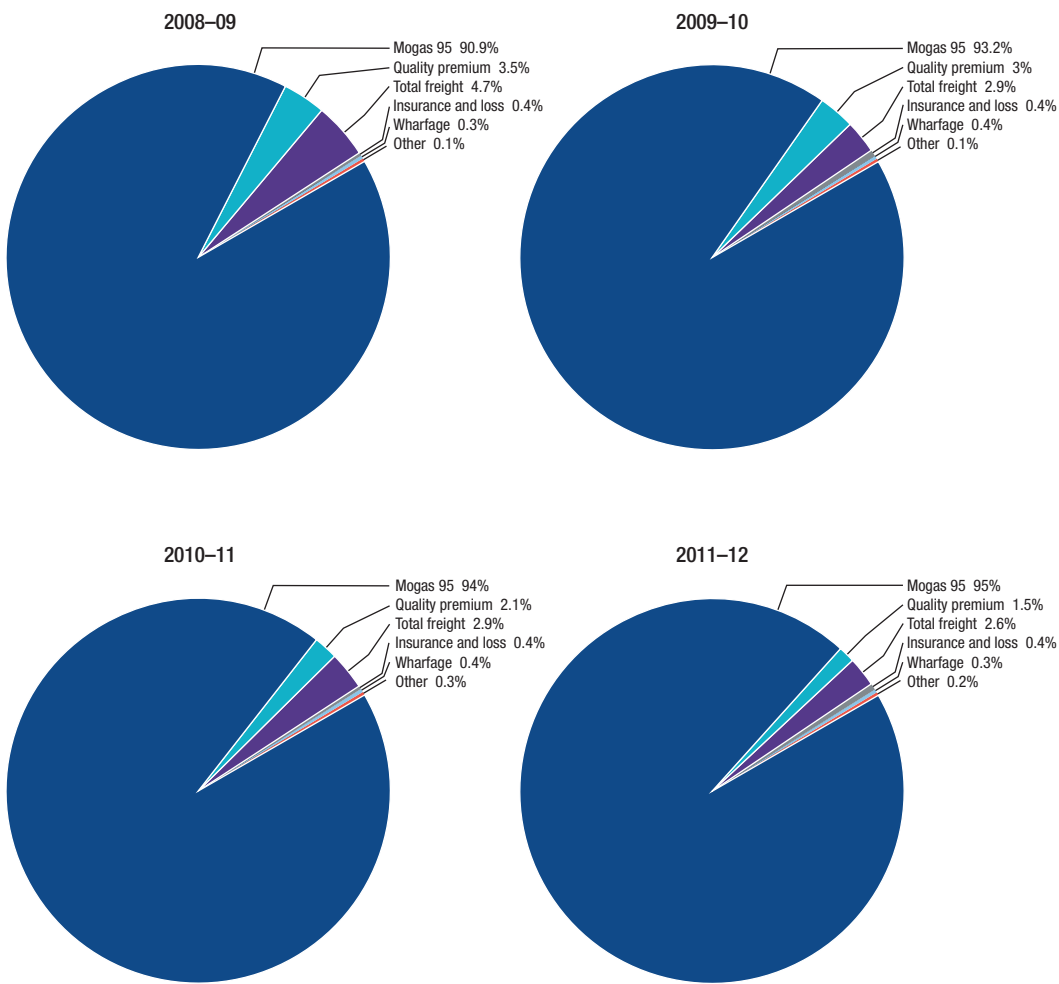
MOPS 95 is an international benchmark price subject to supply and demand factors on the global market. The Australian fuel quality standards for RULP are generally higher than the Mogas 95 specifications; therefore to reflect this difference the IPP includes a quality premium.

The common formula used to derive the IPP for RULP can be expressed as:

$$\text{IPP (RULP)} = \text{Benchmark RULP price (MOPS 95)} + \text{quality premium} \\ + \text{freight} + \text{insurance and loss} + \text{wharfage} + \text{other costs}$$

The price of Mogas 95 is by far the most significant component of the IPP. In recent years Mogas 95 has represented over 90 per cent of the annual average IPP; in 2011–12 it represented 95 per cent (chart 6.1).

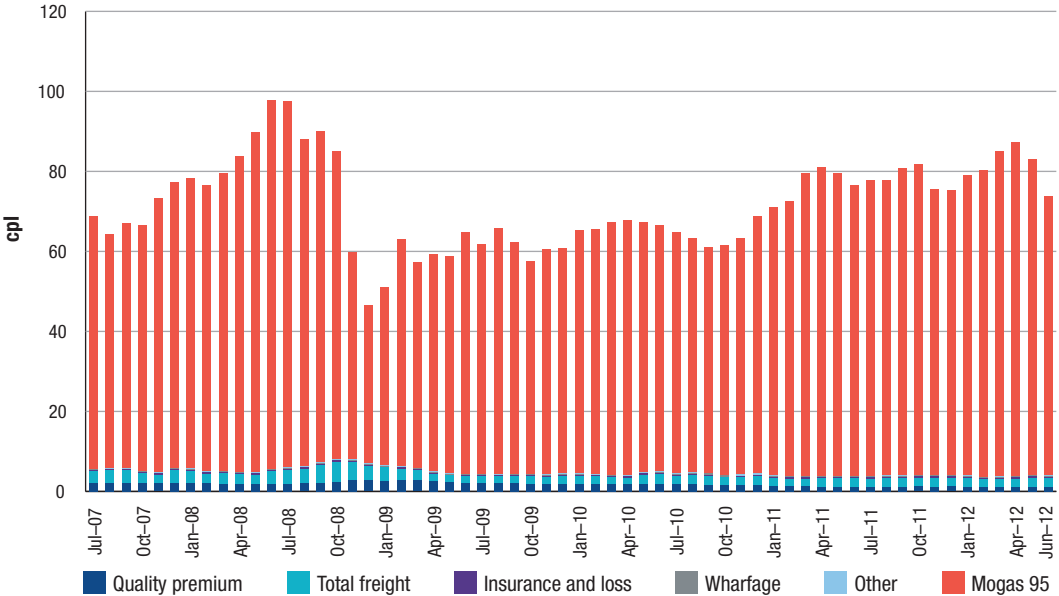
Chart 6.1 Components of annual average IPP for RULP in the five largest cities: 2008–09 to 2011–12



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

As well as being the most significant component, Mogas 95 is also the most volatile, and therefore is the key driver of changes in the IPP. Over 2011–12, the price of Mogas 95 decreased by just over 4 cpl, by contrast all the other components were virtually unchanged (chart 6.2).

Chart 6.2 Components of monthly average IPP for RULP in the five largest cities: July 2007 to June 2012



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

Another factor causing volatility in the IPP is that it is quoted in USD, so is subject to the fluctuations of the AUD/USD exchange rate (table 6.1). Over 2011–12, IPP was highest in April 2012 at 87.22 cpl and lowest in June 2012 at 73.93 cpl.

The size of the quality premium has fallen in recent years. The average annual quality premium was 2.01 cpl in 2007–08 but fell to 1.19 cpl in 2011–12.

Table 6.1 Components of monthly average IPP for RULP in the five largest cities: July 2011 to June 2012

	Exchange rate	Mogas 95	Quality premium	Total freight	Insurance and loss	Wharfage	Other	IPP
	1AUD = USD	cpl	cpl	cpl	cpl	cpl	cpl	cpl
Jul 11	1.06	73.92	1.15	1.98	0.30	0.26	0.18	77.36
Aug 11	1.05	73.79	1.16	2.11	0.30	0.26	0.19	77.80
Sep 11	1.03	76.77	1.18	2.11	0.31	0.26	0.19	80.82
Oct 11	0.99	77.58	1.23	2.17	0.31	0.26	0.19	81.75
Nov 11	1.01	71.43	1.21	2.13	0.30	0.26	0.21	75.54
Dec 11	1.00	71.19	1.23	2.18	0.29	0.26	0.21	75.37
Jan 12	1.02	75.15	1.17	2.09	0.31	0.26	0.20	79.18
Feb 12	1.06	76.50	1.14	1.77	0.32	0.26	0.19	80.18
Mar 12	1.05	81.37	1.13	1.80	0.34	0.26	0.19	85.09
Apr 12	1.03	83.31	1.15	1.96	0.35	0.26	0.19	87.22
May 12	1.00	78.86	1.18	2.15	0.33	0.26	0.19	82.97
Jun 12	0.98	69.89	1.20	2.09	0.29	0.26	0.19	73.93
2011–12 average	1.02	74.10	1.19	2.11	0.30	0.26	0.19	78.28

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

Note: The data in table 6.1, including exchange rates, is not comparable with data in table 7.5 (PULP IPP—chapter 7) as one refiner-wholesaler calculates its PULP IPP differently. Components of table 7.5 have been adjusted to reflect this.

Mogas 95 prices are not comparable with data in chapter 8 and the summary. Data in this table has been derived from the monitored companies.

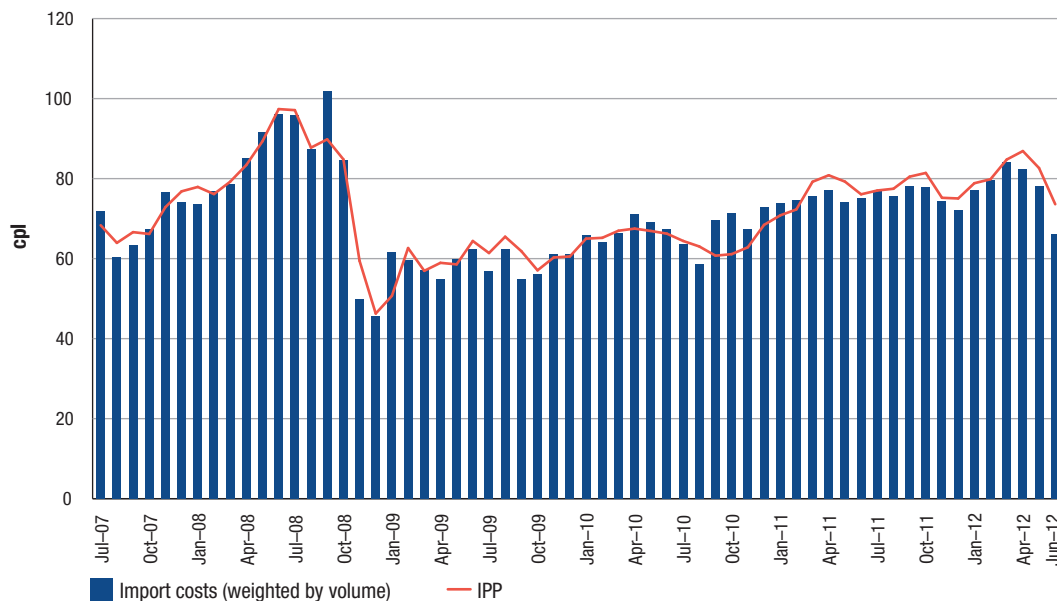
6.3.2 IPP and actual costs of importing

There are a number of factors that will cause some monthly variations between actual costs and the IPP. These include the timing of payments, exchange rate movements and the occurrence of a relatively small number of import transactions in a given month.⁹⁸

For at least the past five years the actual monthly average cost of importing RULP into the five largest cities has generally reflected the IPP (chart 6.3). Over this period the difference between IPP and actual import costs has been, on average, well below 1 cpl.

⁹⁸ A more extensive analysis of IPP is available in chapter 6 of the 2009 ACCC petrol monitoring report and in: *The method and basis of the setting of the import parity price for unleaded petrol and diesel in Australia* by McLennan, Magasanik and Associates, available from the ACCC website: <http://www.accc.gov.au/content/item.phtml?itemId=906685&nodeId=a1d61acd4d02faf7fd66f0970aebcf4&fn=Petrol%20and%20Diesel%20IPP%20Report%20-%20MMA.pdf>.

Chart 6.3 Monthly average import costs and IPP for RULP in the five largest cities: July 2007 to June 2012



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

6.3.3 IPP and transactions between refiner-wholesalers

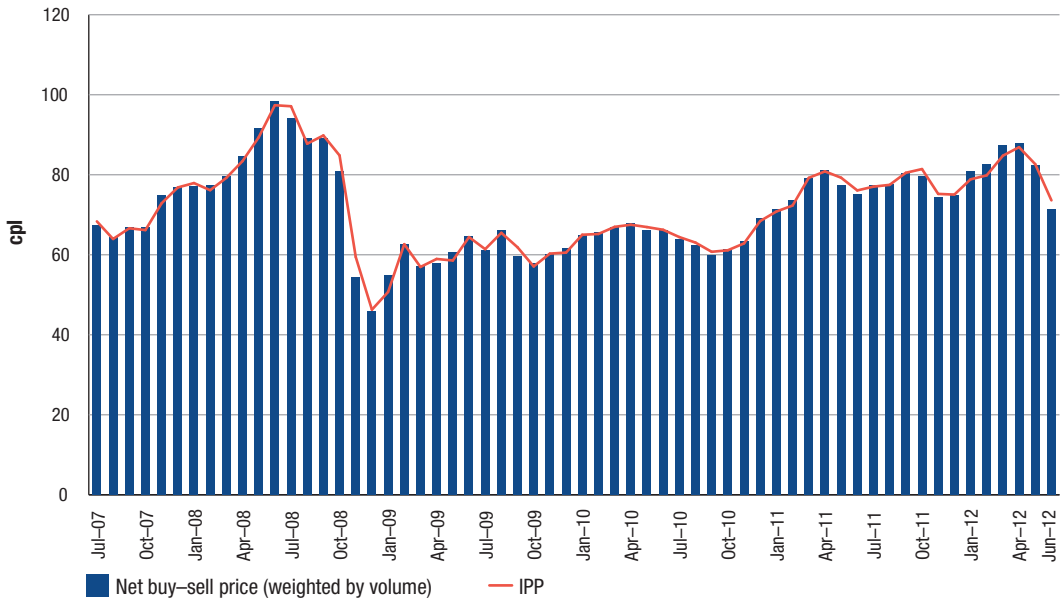
While the refiner-wholesalers have wholesale operations in most capital cities and major regional centres, they do not necessarily operate a refinery or import terminal in these locations. Where this is the case, a refiner-wholesaler has three supply options:

- use another company's terminal to import and store petrol
- transport petrol from a refinery or terminal it owns in another location
- obtain petrol from a refinery or terminal in the local area, operated or used by a different refiner-wholesaler.

The third option is the most commonly used as it allows a refiner-wholesaler an efficient method of accessing local supplies. These are referred to as 'buy-sell' transactions. These occur in the supply (production and import) sector; they are pre-wholesale transactions (refer figure 6.1).

Buy-sell transactions among refiner-wholesalers are underpinned by six-monthly agreements with each other setting out the volumes they intend to buy and sell in each location. The prices in these agreements are based on the IPP; if prices were higher, a refiner-wholesaler could choose to import petrol at a lower cost. Consequently buy-sell prices and IPP track each other very closely, indicating that buy-sell prices are relatively competitive with the costs of importing (chart 6.4).

**Chart 6.4 Monthly average net buy-sell prices and IPP for RULP in the five largest cities:
July 2007 to June 2012**



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

6.3.4 Terminal gate prices

Under the provisions in the Oilcode, TGP's are published daily by refiner-wholesalers and independent wholesalers for specific refineries and terminals. While they are theoretically the price for spot purchases on that day, in practice TGP's are predominantly used as the basis for wholesale transactions which occur under contracts and other pre-determined arrangements.

TGP's have four main components:

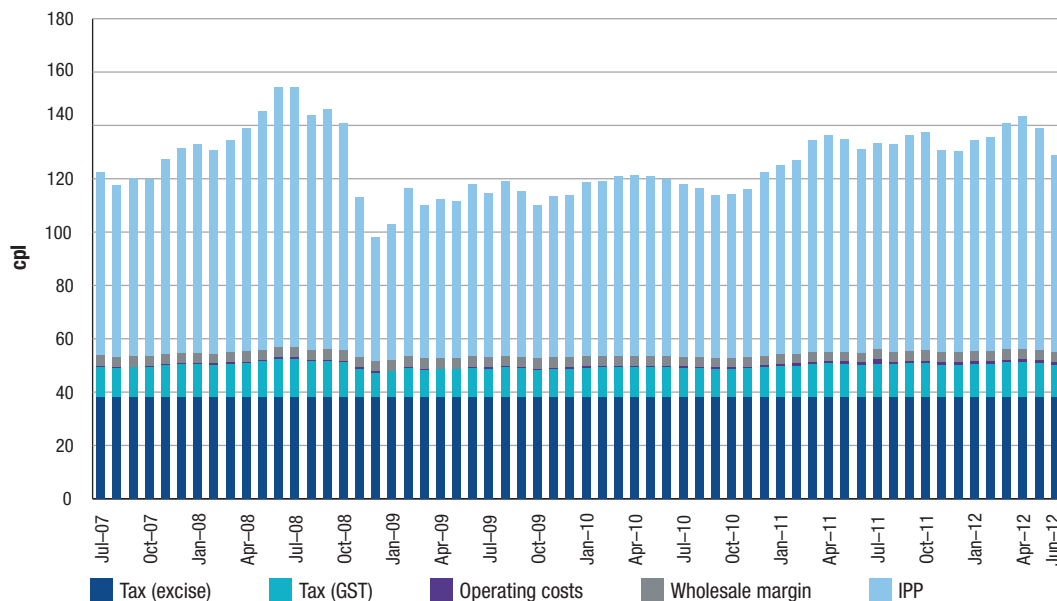
- the IPP
- taxes
- wholesale margin
- operating costs (including storage and local transportation)

The TGP formula is commonly expressed as:

$$\text{TGP} = \text{IPP} + \text{excise} + \text{GST} + \text{wholesale margin} + \text{operating costs}$$

Over the past five years IPP has been the largest component of TGP (chart 6.5). It has been the key contributor to changes in TGP; the other components have been relatively steady over the period. In early 2011–12 TGP was around 135.0 cents per litre (cpl). In April 2012 it peaked at an average of 143.3 cpl, then fell to under 130.0 cpl in June. All these changes predominantly reflect the price of the underlying benchmark product, Mogas 95.

Chart 6.5 Components of the annual average TGP for RULP in the five largest cities:
July 2007 to June 2012



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

6.4 Relationship between wholesale prices and the benchmarks

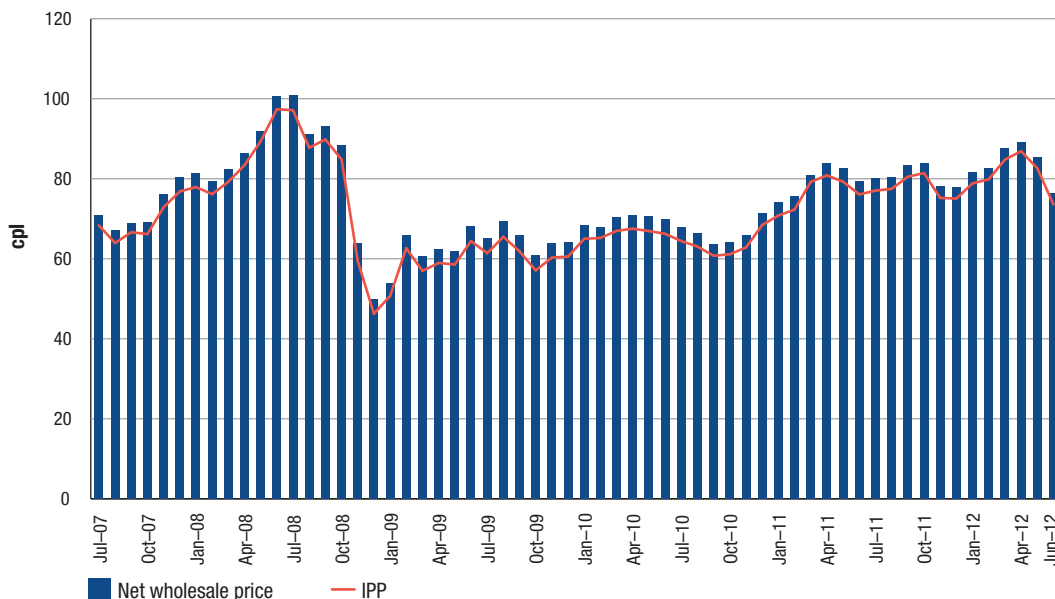
Comparing actual wholesale prices with the IPP and TGP benchmarks provides an indication of the extent to which they reflect notional costs.

As the IPP is a pre-tax benchmark, it is appropriate to make comparisons with the 'net' wholesale price, which is defined as actual wholesale prices less excise and GST. As notional spot prices, TGPs include taxes and hence are compared with actual or 'gross' wholesale prices.

6.4.1 Wholesale prices and IPP

There has been a close relationship between average net wholesale prices and the IPP in the five largest cities over the past five years (chart 6.6). The difference between the two prices represents the average wholesale margin in these cities, as well as operating costs. The chart indicates that the average differential has remained relatively consistent over the five-year period.

Chart 6.6 Monthly average net wholesale prices and IPP for RULP in the five largest cities: July 2007 to June 2012



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

Note: Wholesale prices have been notionally adjusted to exclude excise and GST to allow a comparison with IPP, which excludes taxes.

Table 6.2 shows the differentials between net wholesale prices and the IPP for each of the five largest cities in 2011–12. Sydney (1.9 cpl) experienced the smallest differential. Most of the other cities had the same differential (2.5 cpl), with the exception of Brisbane (slightly higher at 2.6 cpl).

The differential in Sydney for 2011–12 was higher than for 2010–11, when it was 1.5 cpl. It also increased in Brisbane, (from 2.4 cpl in 2010–11), Perth (from 2.3 cpl) and Adelaide (from 2.2 cpl). Melbourne was the only city which had a lower differential compared with 2010–11, falling from 2.9 cpl.

Table 6.2 Annual average net wholesale prices and IPP for RULP in the five largest cities: 2011–12

	Net wholesale price cpl	IPP cpl	Difference cpl
Sydney	82.0	80.1	1.9
Melbourne	82.4	79.9	2.5
Brisbane	82.3	79.7	2.6
Adelaide	82.5	80.0	2.5
Perth	81.5	79.1	2.5

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

Note: Wholesale prices have been notionally adjusted to exclude excise and GST to allow a comparison with IPP, which excludes taxes.

6.4.2 Wholesale prices and TGP

While it is understood that few wholesale sales are actually made at the TGP, it tends to be a benchmark price for the calculation of prices of many wholesale transactions. TGPs are therefore a useful indicator of movements in average wholesale prices.

During 2011–12 daily average gross wholesale RULP prices in the five largest cities closely followed changes in TGPs (chart 6.7). Wholesale prices generally tended to be lower than TGP in 2011–12.

Chart 6.7 Daily average wholesale prices and TGPs for RULP in the five largest cities: July 2007 to June 2012



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

In 2011–12 the average gross wholesale prices were below TGPs in four of the five largest cities (table 6.3). This was in contrast with 2010–11, when prices were above TGP in all five capitals.

Table 6.3 Annual average gross wholesale prices and TGPs for RULP in the five largest cities: 2011–12

	Gross wholesale price cpl	TGP cpl	Difference cpl
Sydney	134.1	135.2	-1.1
Melbourne	134.8	134.7	0.1
Brisbane	134.6	134.8	-0.2
Adelaide	134.1	135.1	-1.0
Perth	134.9	135.5	-0.6

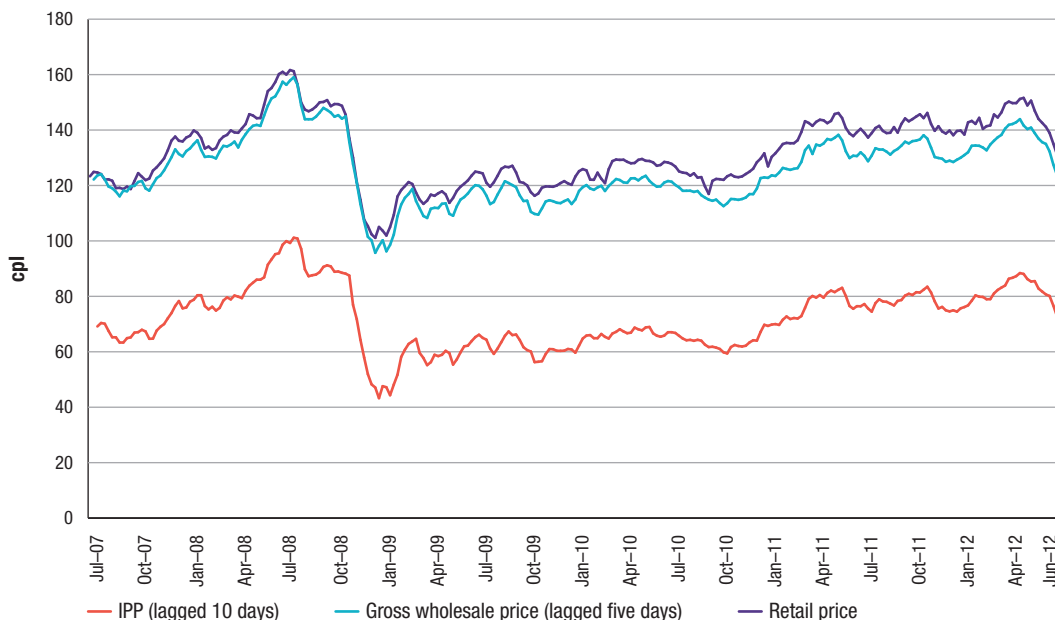
Source: ACCC analysis based on data obtained from firms monitored through the ACCC's monitoring process

6.5 Comparing wholesale and retail prices

Over the five years to June 2012 average weekly retail RULP prices in the five largest cities have closely tracked changes in both gross wholesale prices and IPP (chart 6.8). As would be expected, retail prices are above wholesale prices to account for additional costs and a margin.

The trend of an increasing differential between wholesale and retail prices noted in the 2011 ACCC petrol monitoring report appeared to be less pronounced in 2011–12, particularly in the second half of the financial year. These differentials are not measures of financial performance. Chapter 14 examines the financial performance of the wholesale and retail sectors.

Chart 6.8 Weekly average IPP, gross wholesale prices and retail prices for RULP in the five largest cities: July 2007 to June 2012



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

6.6 Observations on wholesale prices

As an internationally traded product, the wholesale price of petrol is heavily influenced by the IPP. The data analysed in this chapter indicates that over 2011–12 IPP continued to be the basis for setting wholesale prices in Australia. Movements in the IPP have reflected movements in the international price of refined petrol and generally tracked changes in the cost of importing refined petrol into Australia. This is consistent with data analysed by the ACCC since the commencement of monitoring in July 2007 showing that wholesale prices have tracked movements in the IPP which in turn have closely mirrored changes in the international benchmark price of refined petrol and import costs.