

13 Financial performance of the refinery and total supply sectors

Key points

Refining

- During 2011–12, the Australian refinery sector recorded a net loss of \$596 million, or negative 1.6 cents per litre on the sale of all products.
- The refining sector's total revenue for 2011–12 was \$28.9 billion earned on sales of 37.2 billion litres.
- Petrol products recorded a net loss of \$145 million in the refinery sector, down on the profit for 2010–11 of \$159 million
 - among the petrol products, regular unleaded petrol recorded a loss of \$231 million in 2011–12
 - premium unleaded petrol earned a net profit of \$87 million during 2011–12.

Total supply

- The total supply sector recorded a net loss of \$1.1 billion during 2011–12, or negative 1.5 cents per litre on all products.
- The total supply sector's total revenue for 2011–12 was \$57 billion earned on sales of 72 billion litres.
- Petrol products recorded a loss of \$407 million in 2011–12, compared to profits of \$430 million in 2010–11.

13.1 Introduction

This chapter reports on the financial performance of the Australian refinery and total supply sectors of the downstream petroleum industry for the year ended 30 June 2012.

While the closure of the Shell Clyde refinery in September 2012 reduced the number of refineries operating in Australia to six, the data presented in this chapter is for the financial performance of the seven refineries operating as at 30 June 2012. The refinery sector as at 30 June 2012 consisted of seven refineries operating in all mainland capitals except Adelaide. Each refinery produces a suite of petroleum products from crude oil. The refining environment in Australia, particularly post global financial crisis (GFC) is facing a challenging future with fierce international competition.

For the purposes of financial reporting and monitoring, the refinery sector is considered a sub sector of total supply. The total supply sector includes refining, importing and buy-sell transactions among the refiner-wholesalers.

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

Key observations on revenues, costs and profits in the refinery sector for 2011–12 include (table 13.1):

- total revenue for the refinery sector was \$28.9 billion, up 10 per cent on 2010–11. Total petrol revenue was \$12.4 billion, up 8 per cent on 2010–11
- the refinery sector recorded a loss of \$596 million, compared with a profit of \$348 million in 2010–11. The manufacture and sale of petrol products, that is regular unleaded petrol (RULP), premium unleaded petrol (PULP) and ethanol blended petrol (EBP), incurred a loss of \$145 million.

Key observations on revenues, costs and profits in the total supply sector for 2011–12 include:

- total revenue for the total supply sector was \$57 billion, up 17 per cent from 2010–11. Total petrol revenue was \$21 billion, up 14 per cent
- the total supply sector incurred a loss of \$1.1 billion, down from the previous year. The net loss on petrol products was \$407 million.

Table 13.1 Sales and profits in the refinery and total supply sectors: 2011–12 and average from 2002–03 to 2011–12

		2011–12	2002–03 to 2011–12 average
Refinery sector	All products	Sale volumes (ML)	37 247
		EBIT (\$ million)	–596
		Unit EBIT (cpl)	–1.6
	Petrol	Sales volumes (ML)	15 591
		EBIT (\$ million)	–145
		Unit EBIT (cpl)	–0.93
	Diesel	Sales volumes (ML)	12 078
		EBIT (\$ million)	27
		Unit EBIT (cpl)	0.22
Total supply sector	All products	Sale volumes (ML)	72 328
		EBIT (\$ million)	–1 116
		Unit EBIT (cpl)	–1.54
	Petrol	Sales volumes (ML)	26 090
		EBIT (\$ million)	–407
		Unit EBIT (cpl)	–1.56
	Diesel	Sales volumes (ML)	31 191
		EBIT (\$ million)	–244
		Unit EBIT (cpl)	–0.78

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

13.3 Refinery sector: revenues, costs and profits for all products

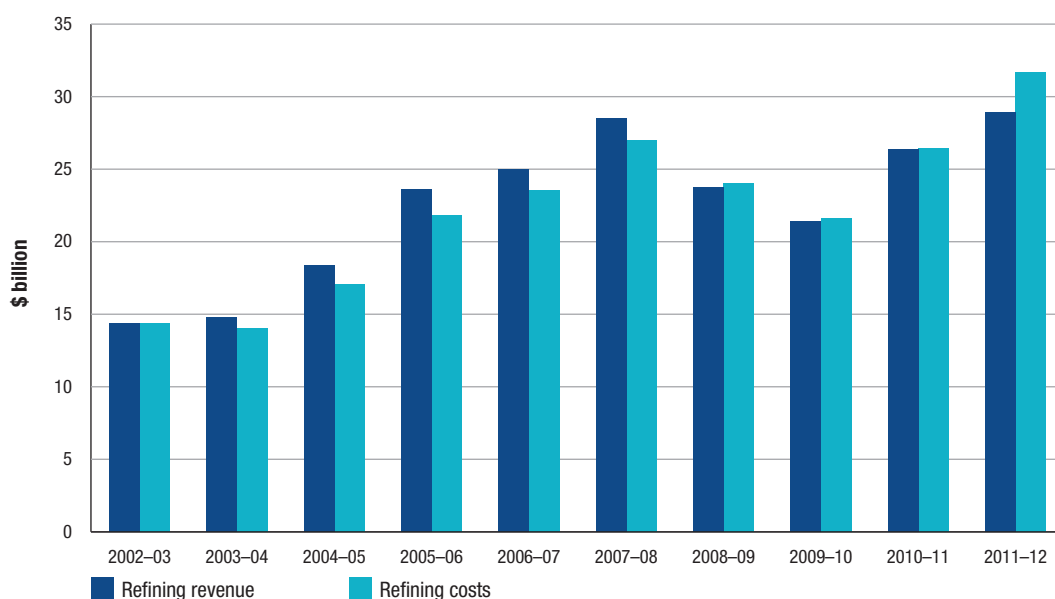
The refinery sector derives its income from the production and sale of petroleum products. An assessment of the Australian refinery sector over the period 2002–03 to 2011–12 indicates vastly different results in the years leading up to the GFC compared with the years since the GFC:

- the first period from 2002–03 to 2007–08 (prior to the GFC) is characterised by rising volume production, strong profits and rates of return on sales and assets
- the post GFC period, from 2008–09 to the present, is characterised by smaller production volumes, comparatively lower profits and rates of return
- possible reasons for the deterioration in the financial performance of the refinery sector since the GFC include weak economic conditions and intense competition from recently constructed large and complex Asian refineries.

13.3.1 Refinery sector: revenues and costs, all products

Within the challenging refining environment outline above, the Australian refining sector increased revenues in 2011–12 but also suffered substantial losses. Chart 13.1 shows the total revenues and costs for all refineries in Australia.

Chart 13.1 Refinery sector revenues and costs, all products: 2002–03 to 2011–12



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

Notes: Refining costs include impairment expenses for the years 2010–11 and 2011–12.

Key observations on refinery revenues and costs for 2011–12 include:

- the refinery sector's total revenue and costs increased to \$28.9 and \$31.7 billion respectively. The overall increases were associated with higher international prices for refined products sold
- total volume produced and sold was around 37.2 billion litres, 2.5 per cent down on 2010–11 and 680 megalitres (ML) below the long term average. This volume reduction was reflected in the refinery utilisation rates which decreased from 88 to 82 per cent
- unit revenue was 77.6 cpl, up 12 per cent from 2010–11 and unit costs were 85.1 cpl, up 23 per cent from 2010–11
- excluding the impairment expenses, unit costs for 2011–12 were 79.2 cpl, up 16 per cent on the previous year.

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

Total net profits

The key profitability measure used to assess the refinery sector is net profit or adjusted EBIT. As outlined in chapter 12, this measure excludes a number of items. The main expense item excluded from this performance indicator and of relevance to the refinery sector is impairment charges. Both Caltex and Shell have announced over the past 12 months impairment write-downs at three of their four refineries.¹⁵⁶ The adjusted earnings before interest and tax (EBIT) items presented in this chapter, as well as in chapters 12 and 14, exclude impairment costs. Chart 13.2 displays net profit for all refineries from 2002–03 to 2011–12.

Key observations on refinery net profit for 2011–12 include:

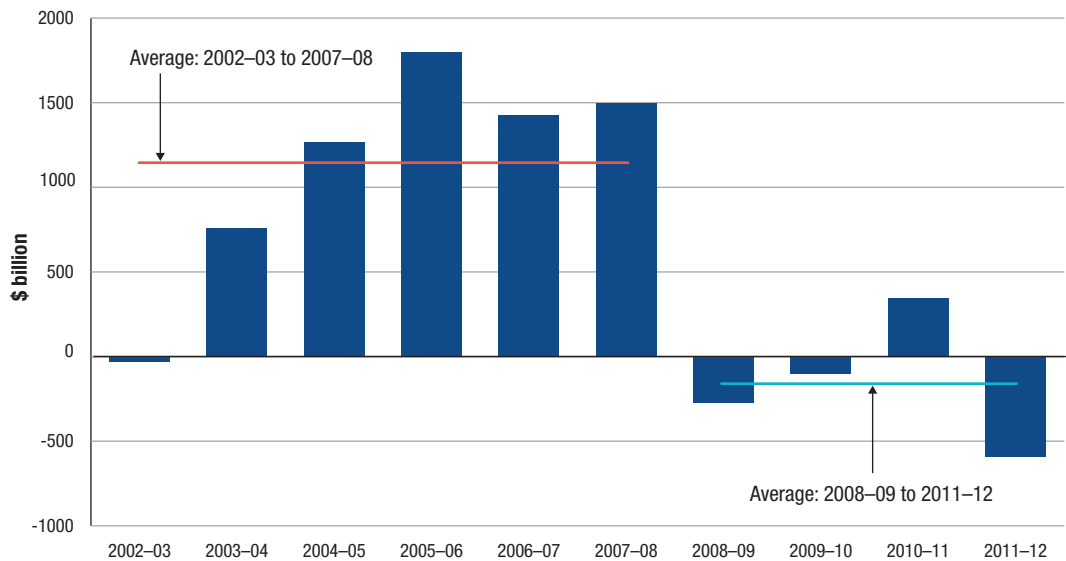
- the refinery sector net loss for 2011–12 was \$596 million compared with a profit of \$348 million in 2010–11.¹⁵⁷ The result in the refinery sector was affected by losses on valuations of inventory holdings including foreign exchange losses, lower volumes, higher operating costs and the effects of unscheduled shutdowns
- the refinery sector is also continuing to be under pressure from import competition. Caltex and Shell have publicly stated that their refineries are relatively small and competitively disadvantaged against the more modern and efficient refineries in the Asia-Pacific region.¹⁵⁸ The post-GFC financial results for the refinery sector reported by the ACCC in its monitoring reports support this position. In the past four years, the refinery sector has returned a profit only once
- chart 13.2 clearly shows contrasting financial results over two distinct periods over the past 10 years. In the years prior to the GFC, 2002–03 to 2007–08, the refinery sector had relatively strong profits with an average annual net profit of \$1,119 million compared an average loss of \$156 million per annum in the years since the GFC
- Not surprisingly, the 2011–12 result for the refinery sector is substantially below the long term annual average net profit of \$609 million.

156 Caltex (2012), 2011 Preliminary Final Report, Results for announcement to the market, 27 February, <http://www.caltex.com.au/Media%20Items/ASX%20Announcement%20-%202011%20Preliminary%20Final%20Report%20and%202011%20Financial%20Report.pdf>
Chambers, M (2012), 'Shell units shed \$495 million after huge refinery write-down', in the Australian newspaper, 11 May 2012.

157 Note that if all expenses are included (including impairment expenses), unadjusted EBIT in the refinery sector for 2011–12 would have been a loss of \$2.8b.

158 Caltex (2012), Press Release, 'Kurnell decision the right one for Caltex' future', 27 August 2012
<http://www.caltex.com.au/LatestNews/Pages/NewsItem.aspx?ID=13323>

Chart 13.2 Refinery sector net profit, all products: 2002–03 to 2011–12



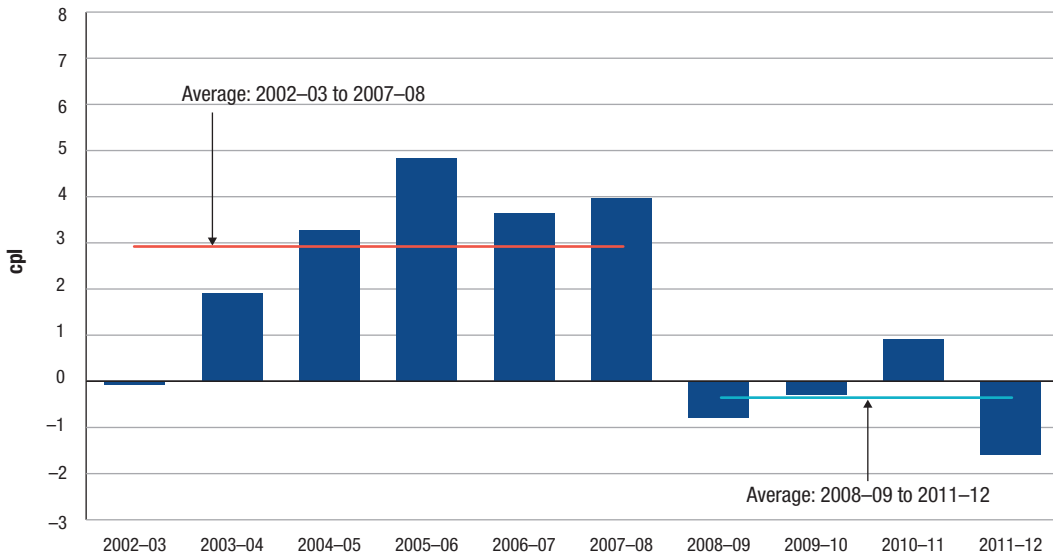
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

Unit net profit

This section presents data on unit net profits across all refinery products. Unit profits are calculated by dividing total net profits by total output volumes expressed in litres. Unit net profit for the refinery sector is presented in chart 13.3. Key observations from the chart include:

- the refining sector made a unit net loss of around 1.6 cpl in 2011–12, compared with a unit net profit of 0.91 cpl in 2010–11
- the average annual unit net profit over the time series was around 1.6 cpl
- splitting the periods into pre and post GFC shows that the average annual unit net profit prior to the GFC was 2.9 cpl compared to –0.4 cpl in the post GFC period.

Chart 13.3 Refinery sector unit net profit, all products: 2002–03 to 2011–12



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

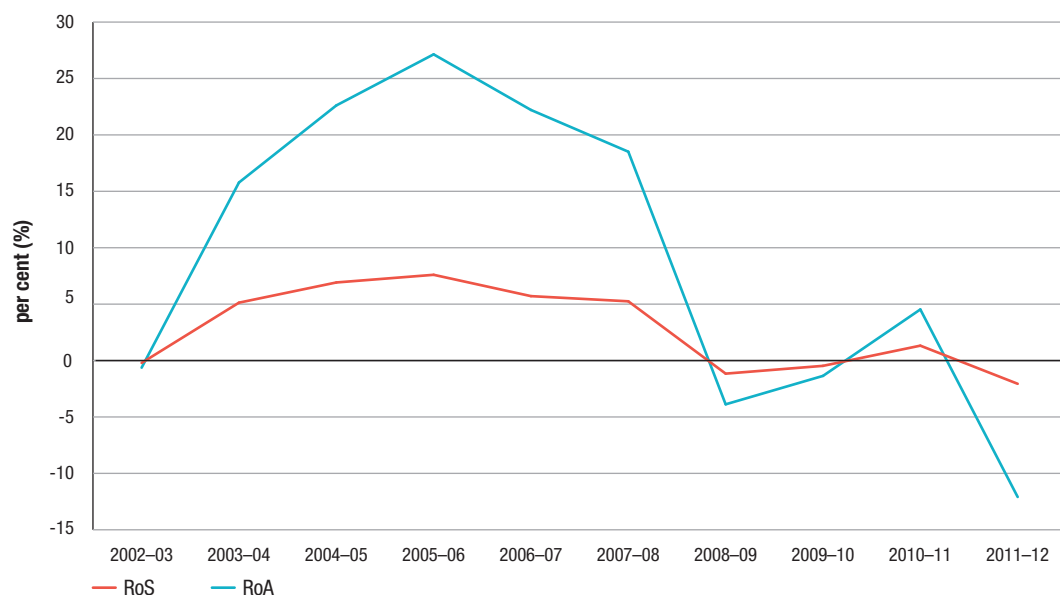
13.3.3 Refinery sector: other key performance indicators, all products

Although net profit is the key KPI for the refinery sector, there are a number of other KPIs used by the ACCC to assess the performance of this sector. These include return on sales (RoS) and return on assets (RoA). This report also considers capital expenditure relative to total profits. For further details on these KPIs, see section 12.9.5. The write down of the value of three refineries during 2011–12 has reduced the overall refinery asset base which, all things remaining the same, will affect the final calculation of the KPI for 2011–12. Chart 13.4 shows these KPIs for the period 2002–03 to 2011–12.

Key observations regarding these profit KPIs for the refinery sector include:

- RoS decreased from positive 1.32 per cent in 2010–11 to negative 2.06 per cent in 2011–12
 - the average RoS for the entire time series was a positive 2.7 per cent
 - RoS sales at each refinery ranged from a low of negative 8.4 per cent to a high of positive 1.1 per cent in 2011–12
 - contrasting the pre and post-GFC periods shows RoS averaging 5.4 per cent pre-GFC and negative 0.6 per cent in the post-GFC period.
- RoA for the refinery sector was around negative 12 per cent for 2011–12, down from positive 4.6 per cent in 2010–11. Note that the absence of liquid markets for refinery assets and the different asset valuation methodologies can influence RoA data:
 - the average annual RoA for the time series was around 9.6 per cent
 - pre-GFC RoA averaged around 19 per cent, while post-GFC RoA averaged negative 2.3 per cent.

Chart 13.4 Refinery sector return on sales and return on assets, all products: 2002–03 to 2011–12

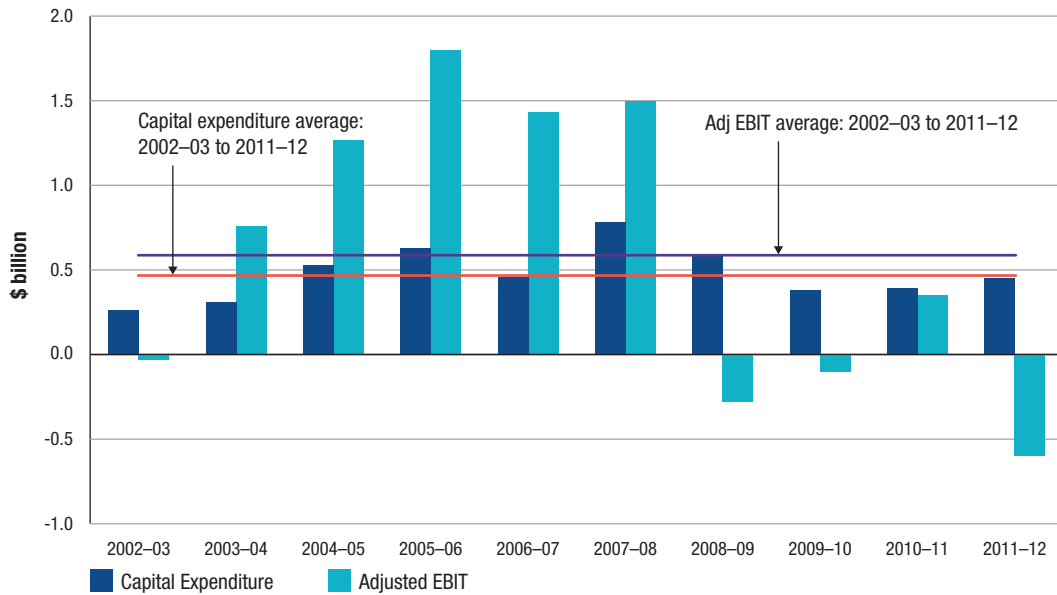


Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

Chart 13.5 presents capital expenditure and adjusted EBIT for the refinery sector over the time series. Key observations regarding capital expenditure and adjusted EBIT for the refinery sector include:

- total capital expenditure during 2011–12 was around \$447 million
- capital expenditure over the past 10 years has averaged around \$481 million per year or about, on average, 79 per cent of yearly net profit
- post-GFC capital expenditure has averaged of \$451 million per annum compared to \$500 million per annum in the years prior to the GFC.

Chart 13.5 Refinery capital expenditure and adjusted EBIT, all products: 2002–03 to 2011–12



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

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

Section 13.3 assessed total revenues, costs and profits in the Australian refinery sector. As required under the minister's direction, the ACCC is also directed to report on the revenues, costs and profits associated with the manufacture and sale of petrol products. This section presents KPIs on the refinery sector's petrol products, that is, RULP and PULP.¹⁵⁹

The methodology for the estimation of costs and derivation of profits associated with petrol products is outlined in section 13.13.

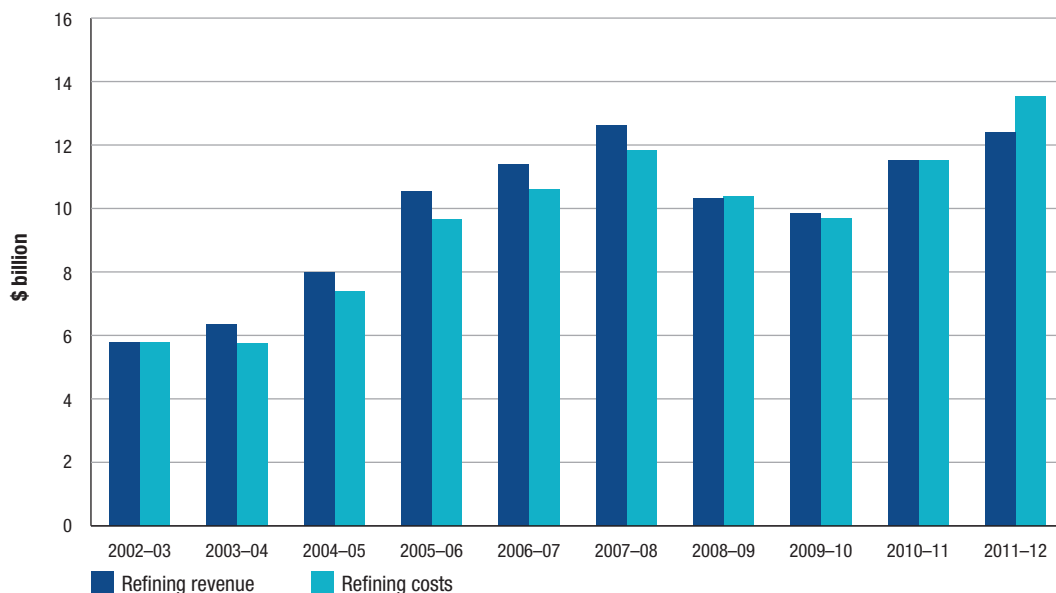
13.4.1 Refinery sector: revenues and costs, petrol products

Chart 13.6 displays the revenues and costs associated with the production and sale of petrol products in the refinery sector. Key observations from the chart include:

- total petrol revenues and costs continued to grow and were around \$12.4 billion and \$13.5 billion respectively during 2011–12
- the increase in petrol revenues is largely due to increases in prices of petrol products
- total petrol volume produced and sold by Australian refineries was around 15.6 billion litres representing a decrease of around 4.8 per cent relative to 2010–11. This volume decrease was due to reduced RULP volumes, down 8 per cent from 2010–11.

¹⁵⁹ EBP is not blended in the refinery sector and not considered in the calculation of petrol profits for this sector.

Chart 13.6 Refinery sector, revenues and costs, petrol products: 2002–03 to 2011–12



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

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

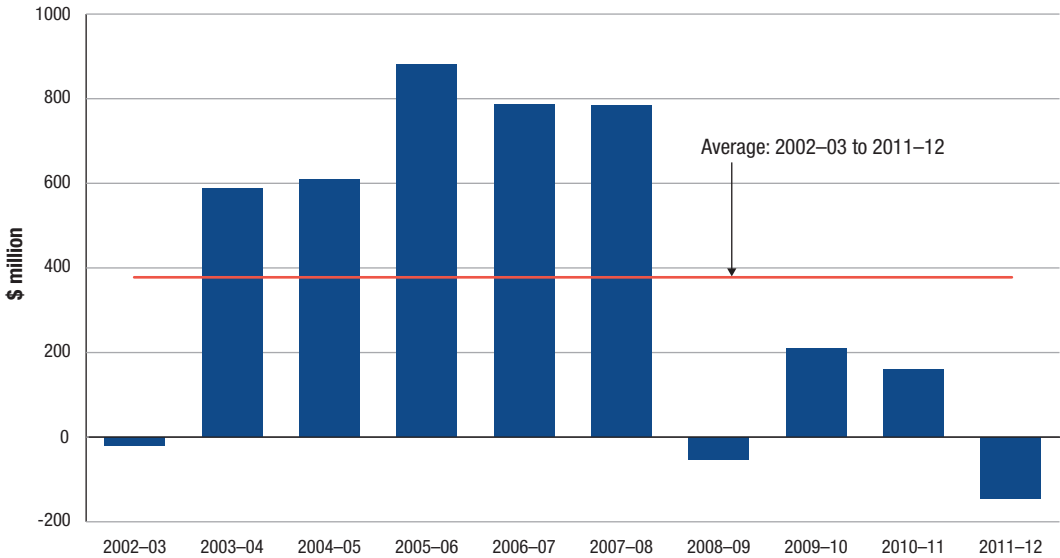
Total net profits

Chart 13.7 displays net profit on petrol products for all Australian refineries from 2002–03 to 2011–12.

Key observations on total refinery petrol net profits include:

- in 2011–12 petrol products recorded a net loss of \$145 million, compared with a net profit of \$159 million in 2010–11
- the key product driver of this loss was RULP which incurred a loss of \$231 million during 2011–12. In contrast, PULP 95 and 98 earned profits during 2011–12
- the average yearly profit for petrol products over the time series has been around \$380 million.

Chart 13.7 Refinery sector net profit, petrol products: 2002–03 to 2011–12



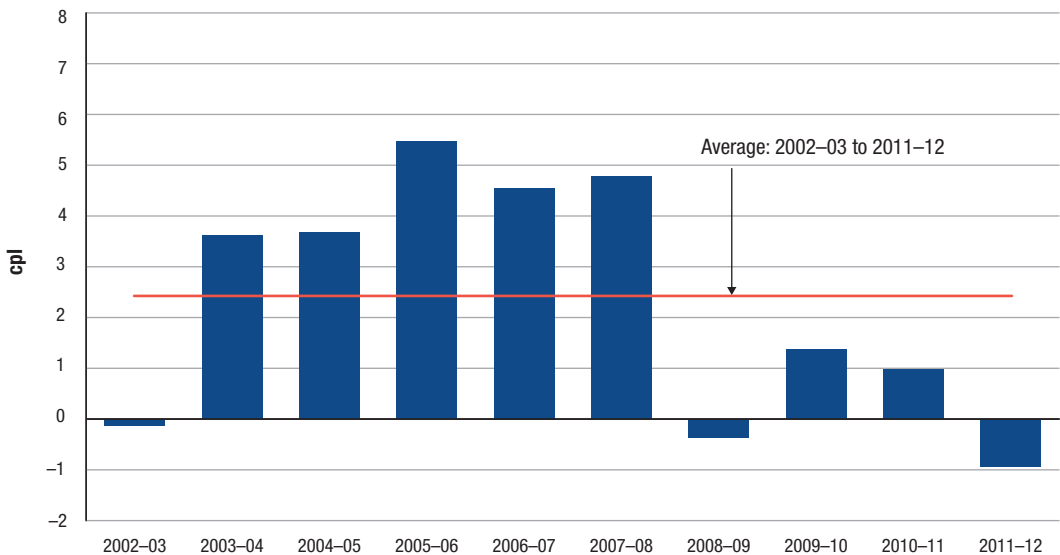
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

Unit net profit

Refinery unit net profits for petrol products are presented in chart 13.8. Observations from the chart include:

- refinery petrol products incurred a net loss of 0.93 cpl in 2011–12, down from a positive net profit of around one cent per litre the previous year
- average unit net profit for petrol over the time series has been estimated to be around 2.4 cpl.

Chart 13.8 Refinery sector unit net profit, petrol products: 2002–03 to 2011–12



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

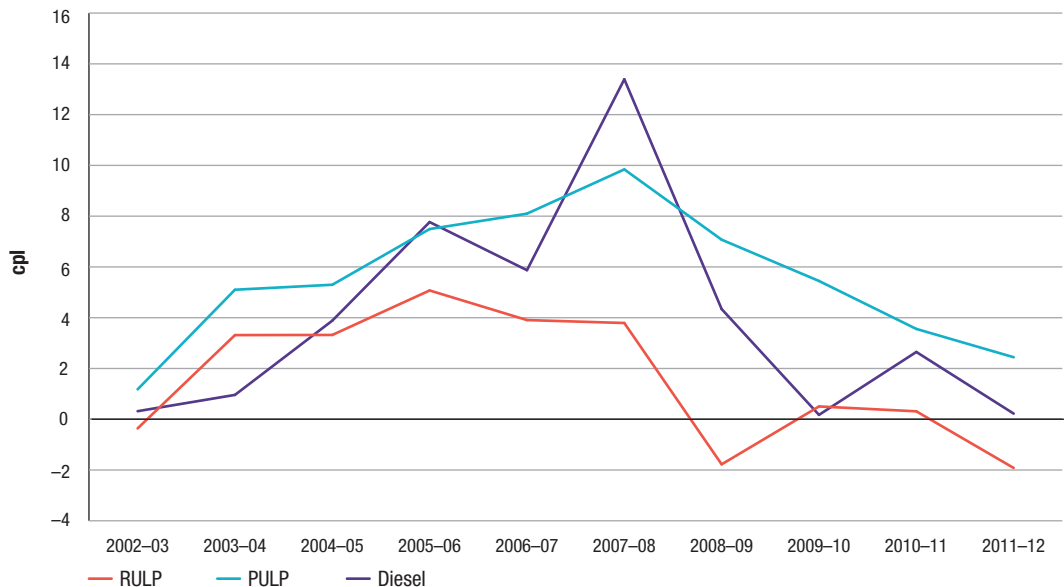
13.4.3 Refinery sector: comparison between unit RULP, PULP and diesel net profits

The previous section assessed petrol revenues and profits for the refinery sector. This section assesses the refinery sector's unit net profits for RULP, PULP and diesel. Chart 13.9 provides a comparison of unit RULP, unit PULP and unit diesel net profits from 2002–03 to 2011–12.

Key observations from a comparison of unit net profits for these individual products include:

- PULP average unit net profits over the time series have been greater than both RULP and diesel. The average annual unit net profits for PULP, diesel and RULP were 5.4, 3.9 and 1.7 cpl respectively
- during 2011–12, PULP unit net profits were the largest with 2.4 cpl, while diesel earned 0.22 cpl and RULP negative 1.92 cpl
- since 2006–07, PULP on average has earned a margin over RULP of 5.3 cpl, highlighting the comparatively greater profitability of refining premium fuels relative to regular unleaded petrol
- the largest divergence among these three products occurred in 2007–08 when diesel earned 13.4 cpl, while RULP unit net profit was 3.8 cpl
- post-GFC, RULP unit net profits averaged negative 0.71 cpl compared to PULP with positive 4.4 cpl.

Chart 13.9 Refinery sector unit net profits, RULP, PULP and diesel: 2002–03 to 2011–12



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

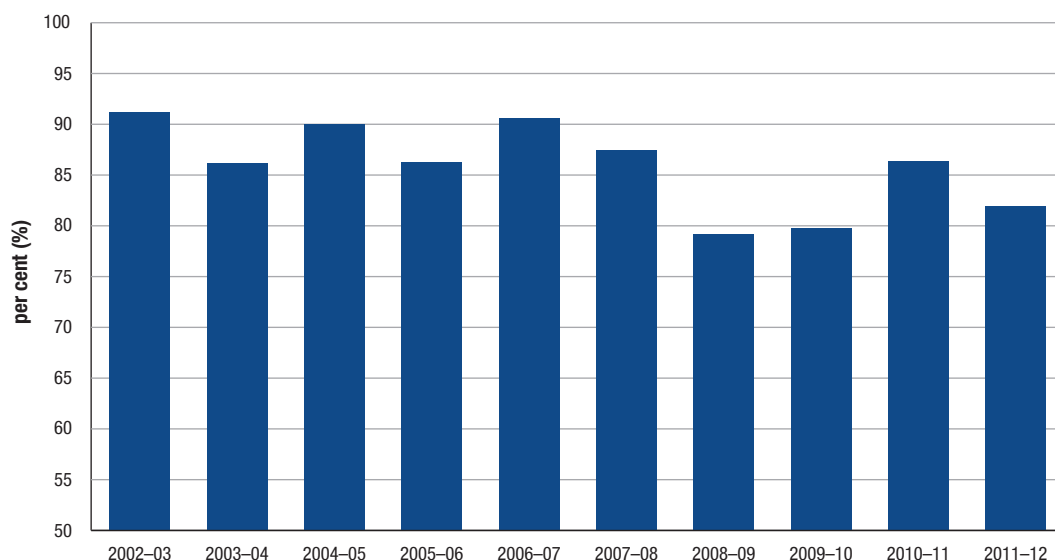
13.5 Refinery capacity utilisation rates

The refinery utilisation rates are KPIs that attempt to show the extent to which a refinery's name plate capacity has been used to process crude oil into the various petroleum products.

The ACCC has used data provided by Australian refineries to derive refinery capacity utilisation rates. Utilisation rates are based around an imaginary 365 day operating efficiency mark (that in reality is rarely reached). Operating issues such as planned and unplanned maintenance or upgrades, natural disasters such as the Queensland floods of 2011, and industrial disputes can affect utilisation rates.

Chart 13.10 displays the total Australian refinery utilisation rates for the period 2002–03 to 2011–12.

Chart 13.10 Refinery sector capacity utilisation rates: 2002–03 to 2011–12



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

Key observations on Australian refinery utilisation rates include:

- the Australian refinery sector's combined utilisation rate decreased from 88 per cent in 2010–11 to 82 per cent in 2011–12
- generally over the time series, the overall utilisation rate has fluctuated between 80 and 90 per cent
- in the last 10 years, the highest utilisation rate occurred in 2002–03 when, on average, refineries operated at 91.2 per cent of capacity.

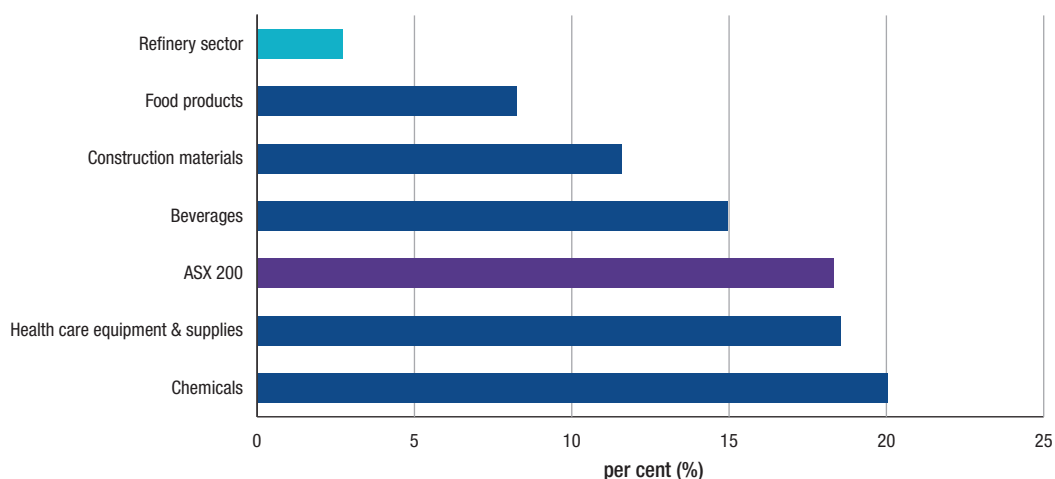
13.6 Refinery sector: comparison of KPIs with other industries in Australia

In chapter 12, the financial performance of selected groupings from the ASX200 was compared with the Australian downstream petroleum industry. In this section, KPIs including RoS and RoA are used to compare the refinery sector against other manufacturing firms in the ASX200.

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

The Australian refinery sector's RoS from 2002–03 to 2011–12 is presented in chart 13.11 and compared with selected manufacturing units in the ASX200. The data in chart 13.11 is an average over the time series for all groupings.

Chart 13.11 Average return on sales for the refinery sector and other manufacturing industries in the ASX200: 2002–03 to 2011–12



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

Notes: The list of companies in the ASX200 is as at 1 October 2012. 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. Revisions to historical data and to the composition of the ASX200 mean that comparisons with data in the comparable chart in the 2011 ACCC petrol monitoring report should be treated with caution.

Key observations on the chart include:

- Australian refineries have the lowest average annual RoS of any grouping with around 2.7 per cent.
- the ASX average RoS of 18 per cent was substantially above the refinery sector RoS.¹⁶⁰

¹⁶⁰ Note that the ABS' return on sales for ANZSIC division C for a comparable time series was half the ASX value at 9.4 per cent, Australian Bureau of Statistics, (2011), Australian Industry, 2010–11, 8155.0, data cube & Australian Industry, 2005–06, 8155.0, data cube. Note that the ABS data excludes general government and banking / insurance industries. Time series covers 2002–03 to 2009–10 <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8155.02010-11?OpenDocument> <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8155.02005-06>

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

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

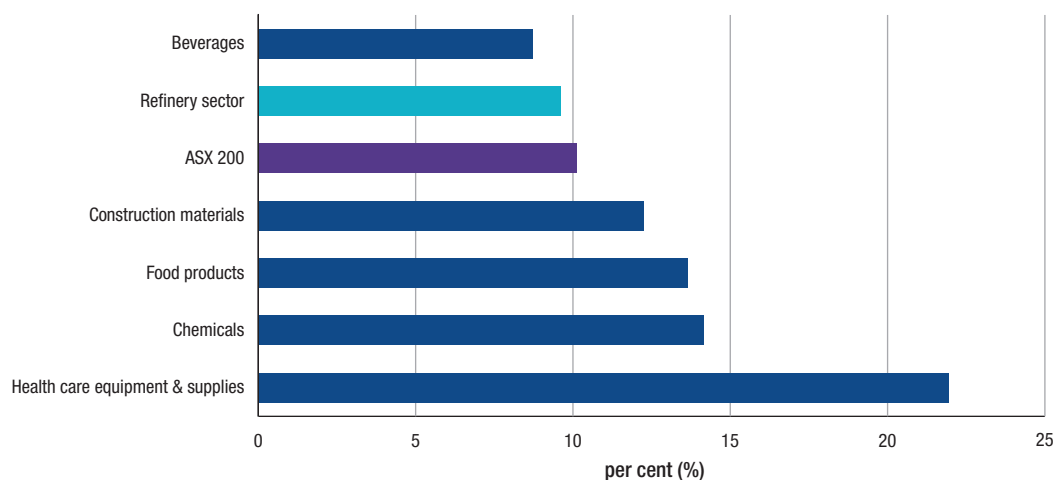
The Australian refinery sector's average annual RoA from 2002–03 to 2011–12 is presented in chart 13.12 and is compared with selected manufacturing units in the ASX200. Although RoA is a more accurate measure of profitability for a firm in a low-margin, high-turnover industry, it has limitations.

As noted in section 12.7.2, the absence of liquid markets for refinery assets and different asset valuation methodologies and depreciation rates can influence RoA data. Further to this, the Australian downstream industry has seen four significant write downs of the value of refinery assets in 2010–11 and 2011–12. Although the write down in costs is excluded from adjusted EBIT, these write downs have had the effect of reducing the value of total assets and subsequently increase the value of RoA. Differences in age profiles across assets also complicate comparisons of RoA for different firms.

Key observations from a comparison of average refinery RoA with other manufacturing industries include:

- average annual RoA for the refinery sector was around 9.6 per cent which is comparable to the ASX200 average of 10 per cent for the time series
- the only grouping to have a lower average annual RoA than the refinery sector was the beverages grouping with an average RoA of 8.7 per cent.

Chart 13.12 Average return on assets for the refinery sector and other manufacturing industries in the ASX200: 2002–03 to 2011–12



Sources: 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 1 October 2012. 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. Revisions to historical data and to the composition of the ASX200 mean that comparisons with data in the comparable chart in the 2011 ACCC petrol monitoring report should be treated with caution.

13.7 Total supply sector

This section assesses the revenue, costs and profits associated with the total supply sector. The total supply sector covers the following activities:

- total refinery operations (the refinery sector is a *sub-sector* of total supply)
- imports of refined products such as RULP and PULP (and some exports)
- purchase and coordination of crude imports for the refinery sector
- transactions between the refiner-wholesalers through buy-sell arrangements.¹⁶¹

Before assessing the revenues, costs and profits of the total supply sector the following caveats must be taken into consideration:

- although all refiner-wholesalers have supply activities, not all have a separate total supply sector. Of those refiner-wholesalers that do not have a total supply sector, imports may be within the refinery operations while buy-sell transactions may be incorporated within the wholesale sector
- this variation by company on the location of certain activities prompted the ACCC to adopt the concept of a separate total supply sector to bring consistency to the sectoral analysis. This decision was taken in consultation with the industry
- those companies that did have a total supply sector did not necessarily operate it as a separate cost centre
- achieving consistency in sectoral reporting meant some companies were required to make allocations not normally undertaken in their internal accounting systems.

13.8 Total supply sector: revenues, costs and profits— all products

In the total supply sector, revenues are earned from the sale of locally refined crude oil, the sale of imported refined product and refined petrol purchased and sold through buy-sell transactions. As this sector (which includes refining) has the greatest exposure to international price movements due to the importation of crude and refined product, the resultant price volatility can impact overall revenues, costs and ultimately profits.

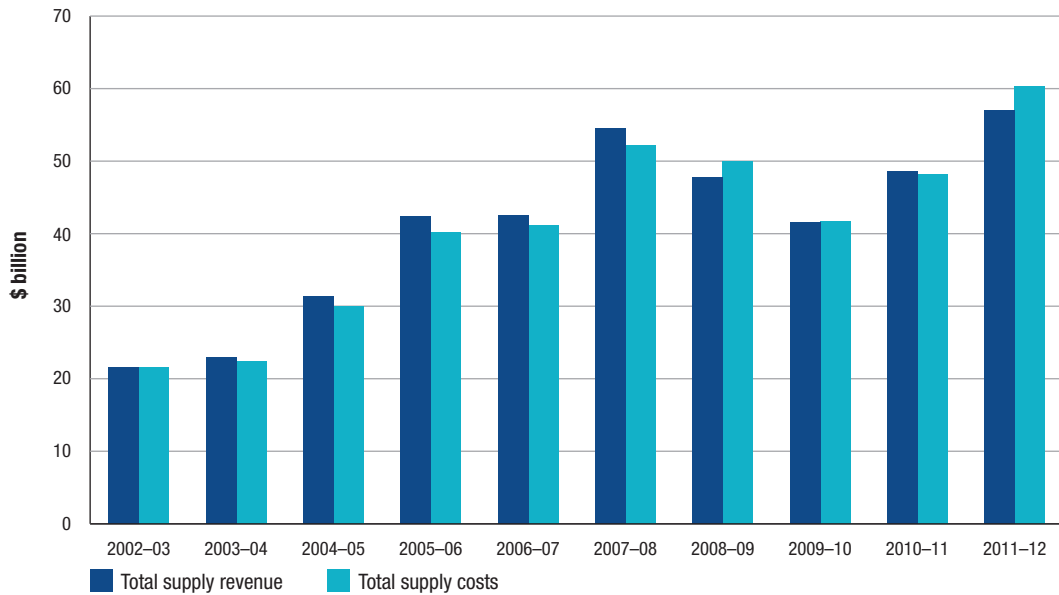
13.8.1 Total supply: revenues and costs, all products

Revenues and costs in the total supply sector are displayed in chart 13.13 over the period 2002–03 to 2011–12. Key observations from the chart include:

- in 2011–12 total revenues and costs increased to \$57 billion and \$60 billion respectively, 17 and 25 per cent higher than 2010–11 respectively
- total volumes increased by 5.2 per cent to 72.3 billion litres during 2011–12. Driving this increase were diesel volumes which increased 11 per cent. PULP products increased 14 per cent (off a relatively smaller base) while RULP volumes decreased 0.1 per cent.

¹⁶¹ Buy-sell arrangements are bilateral arrangements between domestic refiners to supply those refiners with refined product where they do not have a refinery. For example, BP does not have a refinery in Victoria. But by having buy-sell agreements with one of the Victorian refineries, BP can supply refined petrol in Victoria.

Chart 13.13 Total supply sector revenues and costs, all products: 2002–03 to 2011–12



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

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

Total net profits

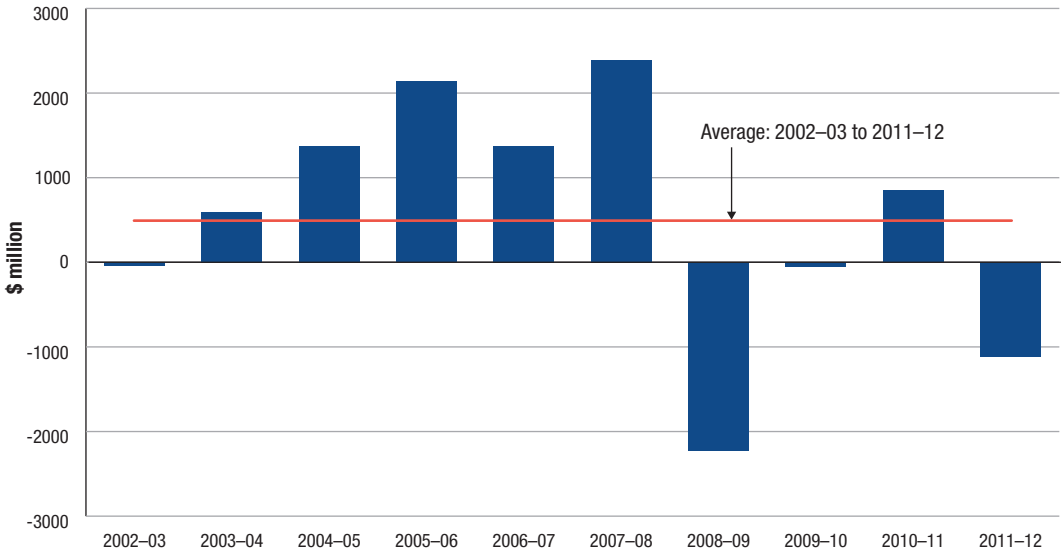
The ACCC has derived a net profit measure for the total supply sector. The caveats outlined in section 13.8 should be used in conjunction with any assessment of total supply net profits. Chart 13.14 presents net profit from 2002–03 to 2011–12.

Key observations on 2011–12 net profits for the total supply sector include:

- total supply recorded a net loss of \$1.1 billion during 2011–12, compared with a profit of \$0.85 billion in 2010–11¹⁶²
- the total supply sector has experienced net losses in three out of the past four years, with the largest loss of \$2.2 billion occurring in 2008–09
- total supply's average annual profit for the entire time series was around \$528 million.

¹⁶² Note that if all expenses including impairment costs were included in the EBIT calculation, the total loss for the total supply sector would have been \$3.3 billion during 2011–12.

Chart 13.14: Total supply sector net profit, all products: 2002–03 to 2011–12

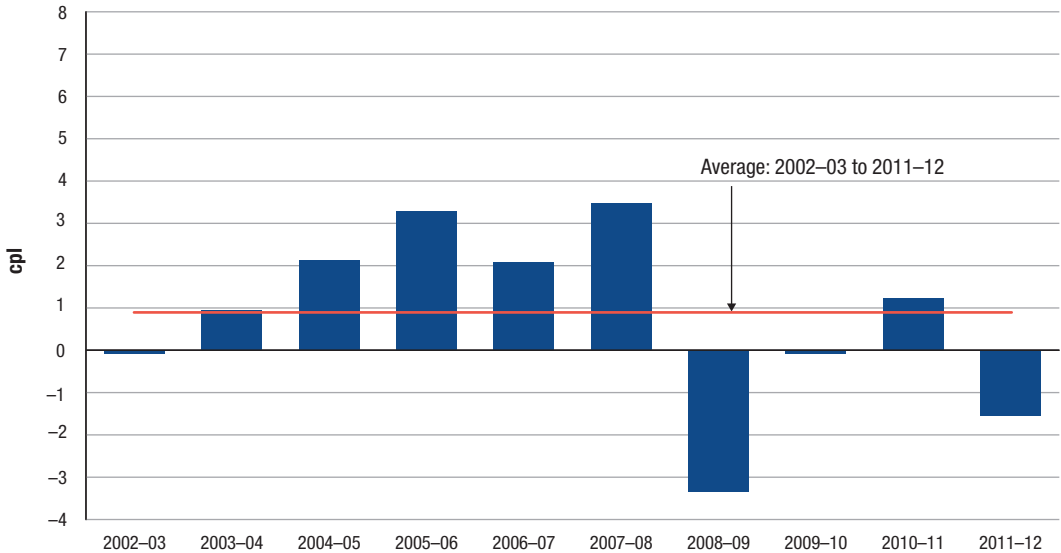


Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

Unit net profit

Total supply unit net profits are presented in chart 13.15. In 2011–12 total supply recorded a net loss of 1.5 cpl compared with a profit of 1.2 cpl in 2010–11. Average annual unit net profit in the total supply sector for the years 2002–03 to 2011–12 was 0.80 cpl.

Chart 13.15 Total supply sector unit net profit, all products: 2002–03 to 2011–12



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

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

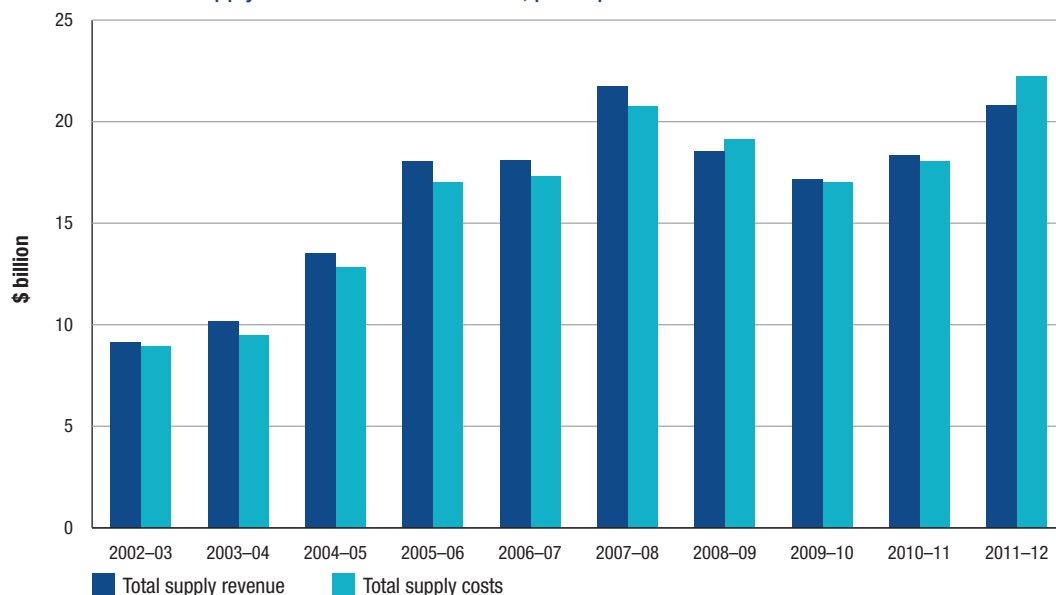
This section discusses the total supply sector's revenue, costs and profits from petrol products. Petrol products include RULP, PULP and EBP, however little EBP is traded at the total supply level as EBP is normally blended with RULP in the wholesale sector. The caveats discussed in section 13.7 on the sectoral allocation of data should be considered carefully when assessing petrol profits in the total supply sector.

13.9.1 Total supply sector: revenues and costs, petrol products

Chart 13.16 presents total sales and expenses for petrol products manufactured and sold in the total supply sector. Key observations on petrol sales and costs include:

- in 2011–12 total petrol revenue and costs increased to \$20.8 billion and \$22.2 billion respectively
- total petrol volumes increased to 26 090 ML, representing an increase of one per cent on 2010–11. RULP volumes decreased by 0.1 per cent while PULP volumes increased 14 per cent (off a smaller base).

Chart 13.16 Total supply sector revenues and costs, petrol products: 2002–03 to 2011–12



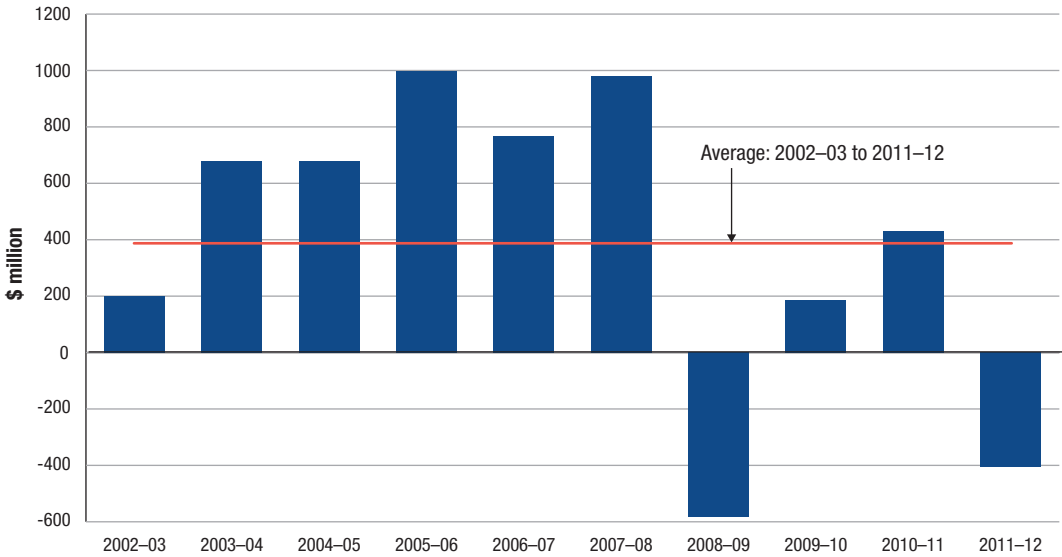
Source: ACCC calculations based on data obtained from firms monitored through the ACCC's monitoring process

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

Chart 13.17 presents the ACCC's estimates of net profit on petrol products for the total supply sector. Key observations from this chart include:

- net profit in the total supply sector for petrol products fell from \$430 million in 2010–11 to a loss of \$407 million in 2011–12
- the long term annual average for petrol net profits is around \$393 million.

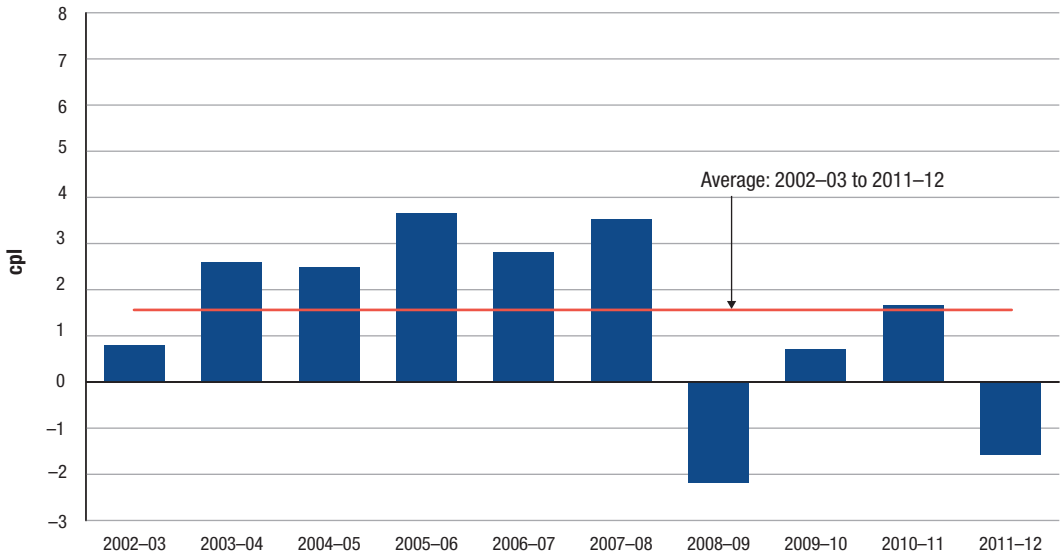
Chart 13.17 Total supply sector net profit, petrol products: 2002–03 to 2011–12



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

Data on unit net profit for petrol products in the total supply sector is presented in chart 13.18. Petrol products recorded a unit net loss of 1.6 cpl during 2011–12, down from a unit net profit of 1.66 cpl in 2010–11.

Chart 13.18 Total supply sector unit net profit, petrol products: 2002–03 to 2011–12



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

13.9.3 Total supply sector: comparison of unit RULP, PULP and diesel net profits

The previous section discussed petrol revenues and profits. This section assesses the profitability of the two fuels that make up petrol products RULP and PULP in the total supply sector and compares them with diesel.

Chart 13.19 displays the unit net profits for RULP, PULP and diesel over the time series. Key observations on these products' unit net profits include:

- all three products recorded net unit losses during 2011–12 in difference to 2010–11 when all were profitable
- RULP recorded the largest unit net loss with 1.2 cpl, slightly below PULP which had a unit net loss of 1.1 cpl. Diesel's unit net loss was 0.8 cpl
- diesel recorded the largest average annual unit net profit over the time series with 1.8 cpl.

Chart 13.19 Total supply sector unit net profits, RULP, PULP and diesel: 2002–03 to 2011–12



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

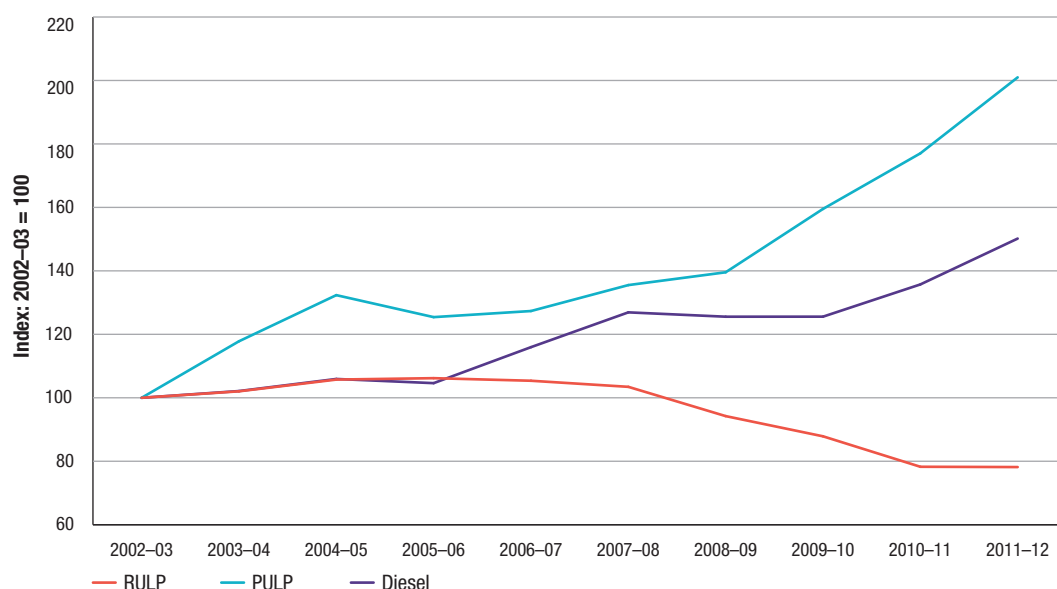
13.10 Total supply sector: product mix

In terms of volumes the total supply sector is the largest sector in the Australian downstream petroleum industry. Assessing changes in this sector's product volume mix provides some clarity on levels of and changes in Australian demand for various products. Chart 13.20 presents an index commencing from 2002–03 displaying changes in product volume for RULP, PULP and diesel.

Key observations on the changes in product volume mix include:

- during 2011–12, PULP experienced the largest percentage increase from the previous year with 24 per cent
- RULP continued its long term decline with volumes decreasing 1 per cent compared with 2010–11. The chart clearly shows the decline in volumes of RULP, decreasing by around 22 per cent since 2002–03
- on the other hand, PULP has increased substantially since 2002–03 with an increase of around 101 per cent (albeit off a substantially smaller base than RULP).

Chart 13.20 Total supply sector, change 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

Further discussion of recent changes in product volume mix in the Australian downstream petroleum industry is presented in section 15.6.

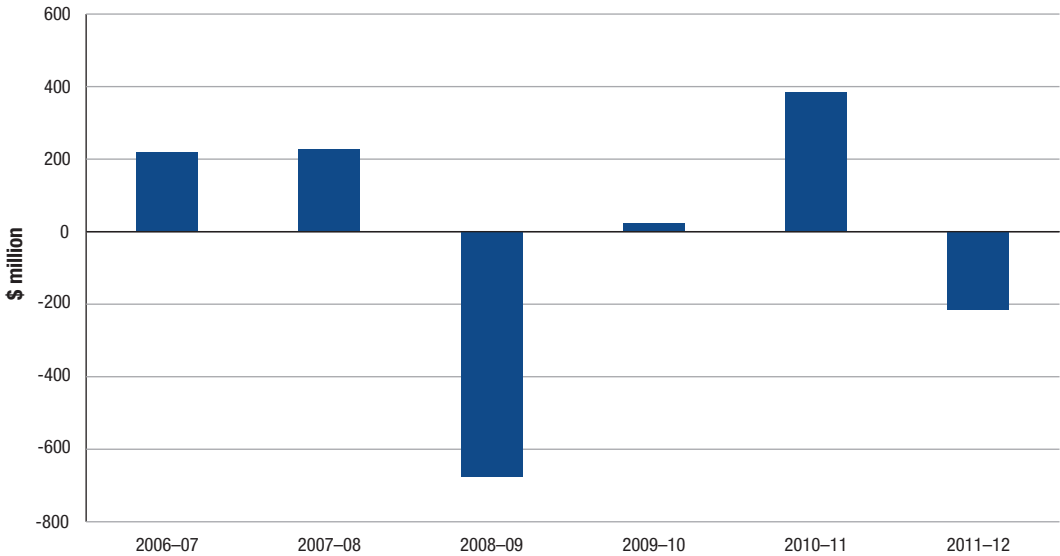
13.11 Total supply sector: foreign exchange gains and losses

The total supply sector in the ACCC's model of the Australian downstream petroleum industry is the sector that coordinates the purchasing (and sale) of domestic and imported crude oil and processed product. Because of this exposure to the international market, this sector has the highest exposure to foreign currency gains and losses as the oil market largely settles in USD.

Chart 13.21 displays foreign exchange gains and losses for the period 2006–07 to 2011–12. Key observations on foreign exchange gains and losses include:

- during 2011–12, the total supply sector experienced losses in foreign exchange transactions for the first time since 2008–09
- foreign exchange transactions resulted in net losses of \$217 million in 2011–12 compared with gains of \$385 million in 2010–11.

Chart 13.21 Total supply sector, foreign exchange gains and losses: 2006–07 to 2011–12



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

13.12 Methodology note

The assessment of the downstream petroleum industry is based on data included total company returns for each monitored company and also company returns by sector.

For the purposes of this monitoring program the ACCC segmented the industry into four broad sectors. Three of these sectors including refining, wholesaling and retailing 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. Note that comparisons with Australian Bureau of Statistics industry data may be misleading due to the scope of monitored units compared to all Australian units that operate in those sectors and also due to the allocation of activities to total supply. The total supply sector used by the ACCC to monitor the Australian downstream petroleum industry does not directly align 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 different 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 12.1, the ACCC has used sales volumes to prorate costs across products so that costs and profits can be estimated for each type of product.

