

1 Background and objectives

1.1 Current role of ACCC in the petrol industry

The ACCC's main roles in the petrol industry include:

- enforcement and compliance: ensuring compliance with and enforcement of the provisions of the *Competition and Consumer Act 2010* (the Act) in the petrol industry
- monitoring: including preparing annual monitoring reports as directed by the minister
- public information and education: informing the public about the petrol industry.

Under the Act, the ACCC may also be required to fulfil other specific functions including responsibilities to hold price inquiries. A full account of the ACCC's activities in relation to the petroleum industry over 2011–12 is set out in chapter 2.

1.1.1 Enforcement and compliance

The ACCC enforces competition and consumer protection laws in the petrol industry, as it does with other sectors of the Australian economy. The ACCC pays particular attention to the operation of competition to ensure that petrol companies are complying with the Act. The Act prohibits conduct such as price fixing, predatory pricing, misleading advertising and mergers that substantially lessen competition. Since March 2007 the ACCC has also had responsibility for ensuring compliance with the Oilcode.

1.1.2 Monitoring

The ACCC monitors the prices, costs and profits of unleaded petroleum products, including regular unleaded petrol (RULP), premium unleaded petrol (PULP) and ethanol blended petrol (EBP) as well as the prices of diesel and automotive liquefied petroleum gas (LPG).

The ACCC's monitoring activities include preparing an annual monitoring report for the government in accordance with Part VIIA of the Act.

1.1.3 Public Information and Education

As part of its role in promoting well informed markets, the ACCC provides wide-ranging information to consumers on the petrol industry. The ACCC's website contains links to regularly updated price data, factsheets and other publications on fuel issues.

In addition, the ACCC responds to fuel enquiries from members of the public and from Commonwealth and state and territory parliamentarians.

1.1.4 Other functions

Under Part VIIA of the Act the ACCC can undertake the following functions:

- hold price inquiries
- examine proposed price rises for goods and services that have been declared by the minister
- monitor prices, costs and profits of an industry or business that the minister directs it to monitor, and reporting the results to the minister and making them publicly available.

The minister's direction to the ACCC to monitor prices, costs and profits in the unleaded petroleum industry was issued pursuant to section 95ZE in Part VIIA of the Act.

Under section 95ZK of the Act, the ACCC can compel the provision of information and documents relevant for the ACCC's functions under Part VIIA.

1.2 The 2012 Monitoring Report

This is the fifth monitoring report on the petrol industry prepared by the ACCC since the original direction by the Minister for Competition Policy and Consumer Affairs in December 2007. This report follows monitoring reports provided to the minister in December of 2008, 2009, 2010 and 2011.

1.2.1 Objectives of the Monitoring Report

The key objectives of the monitoring program derive from the minister's letter and direction as well as the ACCC's responsibilities under the Act. Accordingly, through the monitoring program the ACCC has sought to:

- increase the level of information available and improve consumer awareness regarding the petrol industry
- provide a description and analysis of trends in prices, costs and profits as directed by the minister
- focus on information that sheds light on those sectors of the industry where competition may be less than fully effective and on industry conduct that may warrant further consideration by the ACCC.

1.2.2 Minister's Direction

This monitoring report (the 2012 ACCC petrol monitoring report) has been prepared in response to a direction issued on 9 May 2011, by the then Parliamentary Secretary to the Treasurer, the Hon. David Bradbury MP, to monitor the prices, costs and profits of unleaded petrol in Australia. The direction is to monitor for a period of 12 months and report to the minister by 17 December 2012. A copy of the minister's direction is at appendix A.

This direction followed directions issued on 17 December 2007 by the then Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, the Hon. Chris Bowen MP, to undertake monitoring for three years to the end of 2010, and on 13 May 2010, by the then Minister for Competition Policy and Consumer affairs, the Hon. Craig Emerson MP, to monitor for a period of 12 months to the end of 2011.

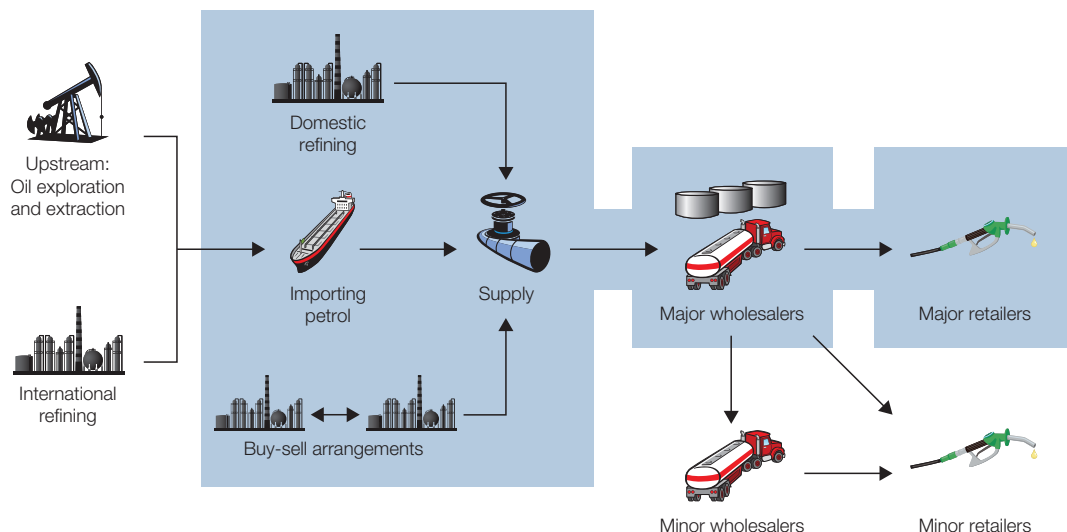
In February 2008, the minister also asked the ACCC to increase its focus on diesel and LPG prices.

On 6 July 2012, the Assistant Treasurer, the Hon. David Bradbury MP, extended the direction to the end of 2013.

1.2.3 Scope of the Monitoring report

This monitoring report follows a similar approach and framework to previous monitoring reports and again covers the three major segments of the Australian petrol industry: total supply (refining and importing), wholesaling and retailing. These are illustrated in figure 1.1.

Figure 1.1 Scope of the 2012 petrol monitoring report



The ACCC has focussed on the Australian domestic industry and has not sought data from overseas suppliers of crude oil or refined product, domestic producers of crude oil or from minor wholesalers and retailers.

The report analyses data on wholesale and retail prices and volumes of petrol products including: RULP, PULP, EBP, LPG and diesel.

The report presents detailed cost, revenue and profitability data for the total supply (refining and import), wholesale and retail sectors. However, as with previous monitoring reports, the 2012 monitoring report also considers international factors that influenced the Australian industry, developments in the market for biofuels and the latest trends in the industry.

In addition, the 2012 monitoring report again explores Australia's experience with wholesale and retail prices compared with other countries.

1.3 Data collection

1.3.1 Process

For the 2012 monitoring report, the ACCC's approach to data collection was similar to previous monitoring reports.

Meetings with representatives from major industry participants were held during February and March 2012 to discuss the 2011 ACCC petrol monitoring report and the data requirements and monitoring processes for the 2012 monitoring program. Data templates were provided in two tranches to the refiner-marketers, independent wholesalers, importers, terminal owners/operators and retailers. Data was sought on wholesale, import and retail transactions, pricing benchmarks and financial performance. The templates sent to terminal owner/operators sought information on the operation and capacity of import terminals.

The following companies have provided information for the 2012 monitoring report:

- refiner-marketers¹⁸: BP and Caltex
- refiner-wholesalers: Mobil, Shell, BP and Caltex
- supermarket chains: Coles Express and Woolworths Petrol
- independent wholesalers: Liberty, United, Ausfuel and Neumann
- independent retail chains: Ausfuel, United, Neumann, 7-Eleven and On The Run
- terminal owners/operators: Vopak, Stolthaven, Gekko, Terminals Pty Ltd and Coogee Chemicals.

The ACCC wishes to thank the companies for the information provided for this report.

1.3.2 Data issues

In 2012 the ACCC encountered a number of recurring issues in collecting and processing data. These are further explored below.

Product Coverage

While the focus of the 2012 monitoring report is on the prices, costs and profits of unleaded petrol products (RULP, PULP and EBP), these are only a subset of the products sold in the Australian downstream petroleum market. Australian refineries also produce diesel and LPG as part of a range of motoring fuel products. Some companies that supply these products to the Australian market also sell non-fuel products and services.

In order to provide broader industry context, data has also been collected on other products and services, mainly diesel, LPG and non-fuel retail sales.

Estimating costs

Measuring costs of individual products in the Australian downstream petroleum industry can be difficult.

Many costs cannot be directly attributed to a particular product or service. Often costs are common to many outputs. In some cases, it may be more efficient to produce a range of products and services jointly than it is to produce each product individually. In these cases, costs cannot be unambiguously attributed to a particular product or service.

For example, petroleum products are produced jointly as part of a suite of products. The nature of petrol refining is such that refiners find it more efficient and economical to employ refinery processes and staff to produce RULP, PULP, EBP, diesel and LPG jointly rather than individually. Similarly, in retail many costs are common to the supply of fuel and non-fuel products (and services) as they are often sold from the same premises and by the same staff.

The existence of common and joint costs means that costs must be 'allocated' to individual products. Australia's refining and retail companies do not generally measure profits for individual products and services and hence do not allocate costs to each individual product.

In order for the ACCC to report on the prices, costs and profits of each petrol product, it has been necessary to collect information on the full range of petrol products in each sector. In refining, the ACCC has estimated profits for a particular petrol product by allocating refinery common and joint

¹⁸ 'Refiner-marketers' is the traditional term referring to the four integrated fuel companies (BP, Shell, Caltex and Mobil) which used to refine, wholesale and retail fuel in the Australian market. While BP and Caltex continue to directly retail fuel, Mobil and Shell, while still marketing proprietary fuels, have effectively withdrawn from direct retailing. Given its historical use, the term refiner-marketer is used throughout this report to refer to the two companies that are still integrated from refining to retailing, BP and Caltex. The other two companies, Mobil and Shell are involved in refining and wholesaling. As these four companies account for all of refining output and the vast majority of wholesale sales, as a group they are referred to in this report as 'refiner-wholesalers'.

costs to each product. In retail, the ACCC has had to allocate total retail expenses between fuel and non-fuel items, and between the different types of fuel sold.

There is no exact way of allocating unattributable costs. While, the ACCC has used well accepted cost allocation rules and conventions such as production volumes, sales volumes and sales values, it is prudent, when interpreting data presented in this report, to be cognisant of the fact that there are no objective criteria for defining the most appropriate approach.

Cost basis

The basis used for measuring and reporting costs can have an impact on financial results. Broadly, there are two main ways of reporting financial data: on a historical cost basis, and on a current or at-market cost basis.

Most operating cost items are reported on a current cost basis as they are expensed against income in the same year that they are incurred. However, assets or long life inventories are expensed over the course of their economic lives. In an environment of relative price stability historical cost values and current cost values are likely to produce roughly approximate results. However, when prices are volatile, the measures produced by historical cost and current cost can be expected to diverge.

Some costs in the petrol industry can be volatile. The major input into the production of refined petrol—crude oil—can be subject to rapidly changing prices. Crude oil is a globally traded commodity whose price is affected by the interplay of world demand and supply conditions. The price of crude oil can change significantly between the time of purchase and the time it is used to produce refined petrol. Because the price of crude oil is an important determinant of the price of refined petrol, the use of historical cost at a time of rapidly changing prices means that refining profits are affected by timing considerations. With current cost data, the effects of changing crude prices are excluded from profit measures.

Financial data has been reported to the ACCC on a historical cost basis. As such, it is appropriate to interpret the financial results presented in this report with caution as price changes outside the control of companies can have a material impact on reported profits.

The ACCC has accepted data on a historical cost basis because not all companies typically report current costs and because historical cost reporting is consistent with Australian and international accounting standards.

Data Templates

In the petrol industry, as with other industries, different companies use different business models, organisational structures and reporting systems. Even among petrol companies that operate in the same sector, there are differences in the way they operate and report data.

Differences in company reporting structures and accounting systems can complicate comparison of data across companies.

While the ACCC has sought to use data templates that as far as possible mirror companies' own reporting frameworks, in order to ensure that data collected in the monitoring program is comparable across companies it has been necessary to use standardised data templates.

The design and conceptual basis of the financial and transactional data templates for 2012 were largely the same as for 2011.

In 2012, data was also requested on ethanol purchases. This was prompted by on-going concerns about ethanol supplies and the impact of the cost of ethanol on the retail price of ethanol blended petrol, particularly in New South Wales. The design of the data template used to collect data on ethanol purchases reflects comments from major industry participants.

Sectoral Coverage

The sectoral coverage of the ACCC's monitoring programme varies across sectors. The Australian downstream petroleum industry consists of four companies that own refineries (BP, Caltex, Mobil and Shell), a number of independent wholesalers/importers (Ausfuel, United, Neumann), many specialist wholesalers (including Liberty) and a large number of retailers, including the retail networks of two refining companies and the independent wholesalers/importers.

Data has been collected on the refining operations of all four refiner-wholesalers. However, as the wholesale and retail sectors include a large number of small and independent operators from which it was not possible to collect data, the coverage of the ACCC's data collection in these sectors is less than complete. As with previous monitoring reports, data on these sectors was obtained from the four refiner-wholesalers, Liberty, United, Neumann, Ausfuel, 7-Eleven, On The Run, Coles Express and Woolworths. Retail price data for some of the smaller retailers was obtained from Informed Sources. Retail sales volumes of smaller operators can be estimated from the data provided by refiner-wholesalers on their wholesale transactions.

Time series

Data was collected from monitored companies for financial year 2011–12. This continues the time series that began for transactional data in 2007–08 and for financial data in 2002–03.

Confidentiality

Much of the information provided to the ACCC is commercially sensitive and has been provided on a confidential basis. To protect confidentiality, the analysis of costs, revenues and profits is presented in this report at an aggregate rather than a company level.

1.4 Previous ACCC involvement in petrol industry

The ACCC's involvement in the petrol industry pre-dates the commencement of the present series of formal monitoring reports in 2008. The ACCC and, previously, the Trade Practices Commission and the Prices Surveillance Authority (PSA) have undertaken prices surveillance, public inquiries, informal price monitoring, and have been involved in public awareness and education activities as well as enforcement of the Act.

In 1984 the petrol industry was subject to a prices surveillance regime administered by the PSA. Under prices surveillance, the PSA, and subsequently the ACCC, established maximum wholesale prices for petrol, including freight differentials. Prices surveillance was abolished in August 1998.

Following deregulation, the ACCC continued to informally monitor the industry. Through this watching brief the ACCC was able to provide information to consumers through various ACCC publications and the ACCC website. Information collected from informal monitoring also assisted with administering the provisions of the Act and helped the ACCC prepare analyses and reports for the Australian Government and Parliament.

The ACCC's 2007 inquiry into the petrol industry under Part VIIA of the then Trade Practices Act was triggered by concerns about a discrepancy between movements in domestic petrol prices and international petrol prices. The ACCC inquiry covered the industry structure, an assessment of competition in the industry, the determination of prices and current impediments to efficient petrol pricing and possible methods to address them. The ACCC report made a number of key findings and recommendations to the government. A summary of the ACCC's major findings and recommendations, and the government's response, was presented in the ACCC 2009 petrol monitoring report.¹⁹

1.5 Report structure

The structure of the 2012 monitoring report largely reflects Australia's downstream petrol industry structure as well as other relevant issues highlighted in the minister's direction.

The report's structure is as follows:

- Chapter 2 describes the ACCC's petrol-related activities in 2011–12
- Chapter 3 presents developments in the industry structure
- Chapter 4 provides an international context for price setting in Australia in 2011–12
- Chapter 5 focuses on developments in the market for ethanol and other biofuels
- Chapter 6 assesses pricing in the wholesale sector
- Chapter 7 describes trends in the market for premium grades of petrol
- Chapter 8 outlines prices in the retail sector
- Chapter 9 focuses on retail pricing in regional locations
- Chapter 10 considers major retail pricing issues in 2011–12
- Chapter 11 presents an international perspective on petrol prices
- Chapter 12 analyses the revenue, costs and profits in downstream petroleum
- Chapter 13 analyses the revenue, costs and profits in the refining and supply sectors
- Chapter 14 analyses the revenues, costs and profits in the wholesale and retail sectors
- Chapter 15 describes broad trends in Australia's petrol industry.

¹⁹ ACCC, *Monitoring of the Australian petroleum industry*, December 2009, p 6.

