

3 Developments in industry structure

Key points

- Australia is likely to continue to rely on imports of crude oil to supply its petrol refineries.
- The Australian refining sector faces challenges as it competes with growing refinery operations in the Asia-Pacific region. This is reflected in the closure of Shell's Clyde refinery in October 2012, and the proposed shutting of Caltex's Kurnell refinery in 2014.
- The availability of Australian-standard fuel from large modern refineries in the Asia-Pacific region and the expansion of Australia's import terminal infrastructure suggest that the needs of Australia's downstream petroleum industry can be met from imports.
- Independent wholesalers continue to be an important source of competitive pressure by importing increasing volumes of refined petrol, facilitated by increased access to imports and import terminals.
- The retailing sector consolidated during 2011–12, with specialist retailers accounting for a significant proportion of the retail market and some refiner-marketers having moved out of the sector.

3.1 Introduction

This chapter discusses the main features of the Australian downstream petroleum industry and highlights the latest developments in industry structure over the course of 2011–12.

Australia's downstream petroleum industry continued to experience change in 2011–12. These developments are consistent with recent trends of rationalisation of refining and growth in import infrastructure.

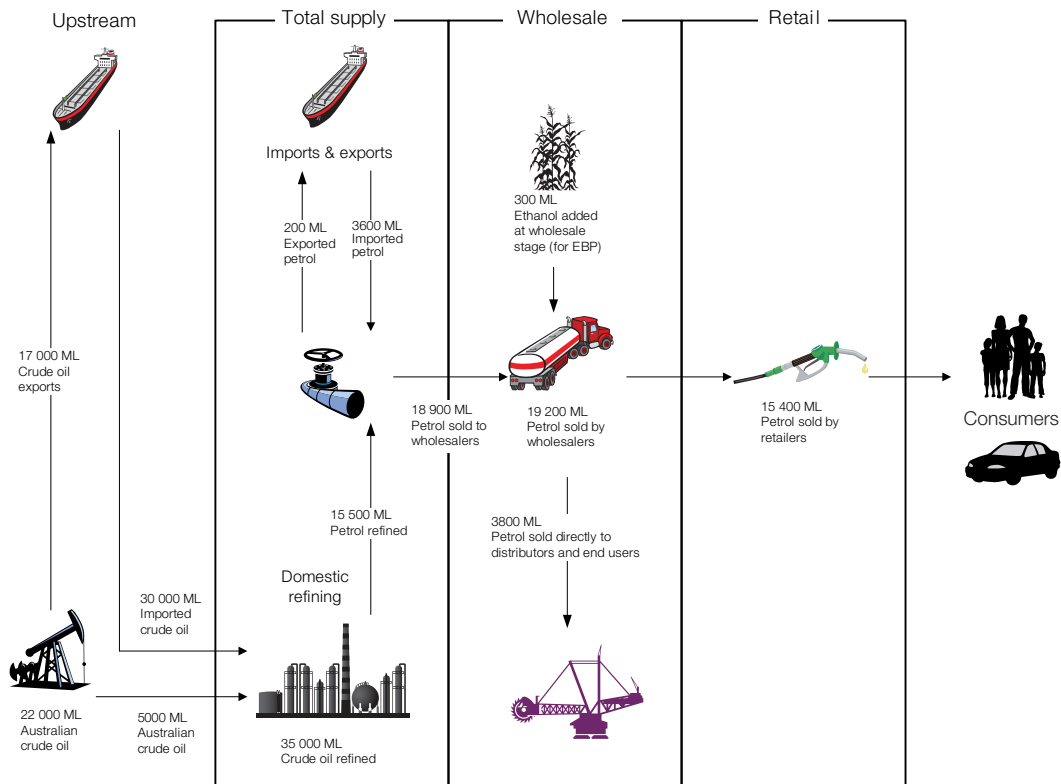
More recently, the ability of Australian importers to source Australian-standard fuel from Asian refineries, in conjunction with the expansion of independently-owned import terminals, has played a significant role in shaping the structure of the total supply sector.

3.2 The downstream petroleum industry

Australia's downstream petroleum industry is divided into three main sectors (figure 3.1):

- total supply—including refining and importing
- wholesale
- retail.

Figure 3.1 Crude oil and petrol flows through the Australian petroleum industry: 2011–12



Source: Bureau of Resources and Energy Economics (BREE), *Australian Petroleum Statistics*, issue 191 (June 2012); ACCC estimates based on data obtained from firms monitored through the ACCC's monitoring process; and *Australian Biofuels 2012–13*, APAC Biofuel Consultants

The Australian petroleum industry has evolved as a series of state-based markets, focussing on the five largest capital cities. Thus the refining, import and wholesale operations and infrastructure of petrol companies are predominantly state-based. This infrastructure is further described in the state-by-state schematics at appendix B.

This chapter first sets out the Australian context for the major input for producing petrol, crude oil. The subsequent sections outline developments in Australian refining and importing operations as well as the latest trends in the wholesale and retail sectors.

3.3 Crude oil inputs

As the major input into the production of petrol and other fuels, the sources and uses of crude oil play a critical role in any petroleum industry.

In Australia, there are two potential sources of crude oil:

- domestic reserves, such as those located in the North West Shelf in Western Australia and in the Gippsland Basin in Bass Strait, Victoria, and
- imports from a number of oil exporting countries.

3.3.1 Source of crude oil used in Australia

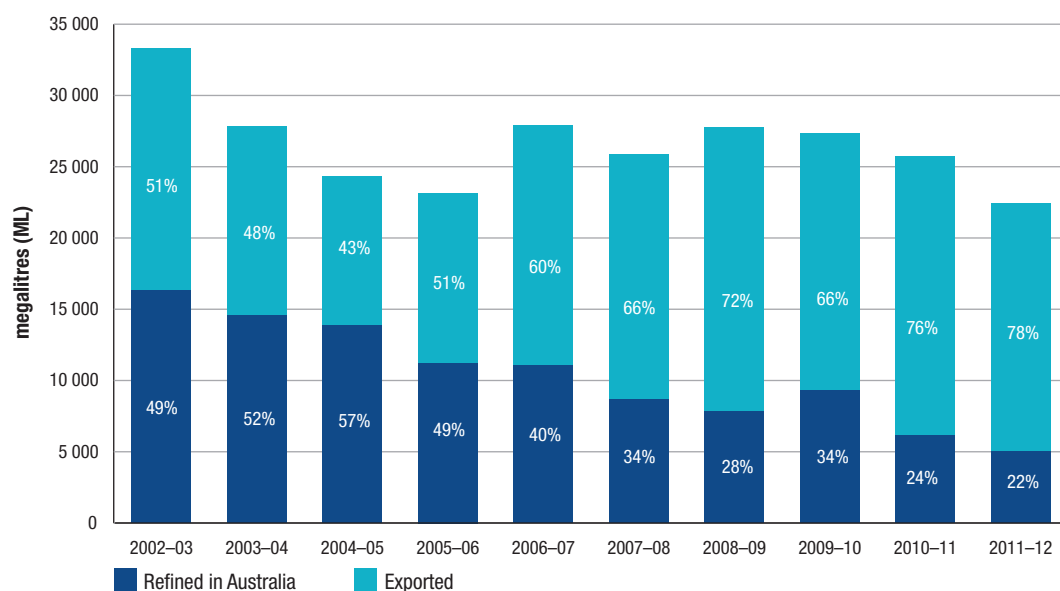
While Australia has reserves of crude oil, it is a net importer of crude oil.

Most domestic reserves are of light and sweet crude grades. Although Australian refineries are able to process these crudes, they are also able to process cheaper heavier varieties of crude oil. Because light sweet crude oil commands premium prices in international markets, Australian companies often prefer to export a large proportion of the higher quality domestic crude oil at a premium, and import heavier crudes that are not available in Australia.

The Carnarvon Basin in Western Australia accounts for around 72 per cent of total liquids production, most of which is exported. The Gippsland Basin accounts for about 24 per cent of production and while crude oil from this source is predominantly light and sweet, some is used in domestic refining due to its close proximity to refineries in Melbourne and large markets.²¹

In 2011–12, Australia's crude oil production was around 22 000 ML. Of this, 22 per cent was used in local refineries, while 78 per cent was exported (chart 3.1). Overall, the last 10 years have seen a decline in domestic crude oil production. According to some estimates, Australia's crude oil production peaked in 2000.²² While this decline may have been one of the factors leading to an increasing need to import crude oil for domestic refining, the refinery closures outlined in this chapter should lessen future crude oil requirements.

Chart 3.1 Volumes and percentage of Australian crude oil and condensate²³ production used domestically or exported: 2002–03 to 2011–12



Source: Department of Resources, Energy and Tourism (RET) and BREE, *Australian Petroleum Statistics*, issues 107 (June 2005), 13 (June 2008), 179 (June 2011) and 191 (June 2012). Note due to data revisions by BREE chart is not comparable with previous years

21 US Energy Information Administration, at <http://www.eia.gov/countries/cab.cfm?fips=AS>

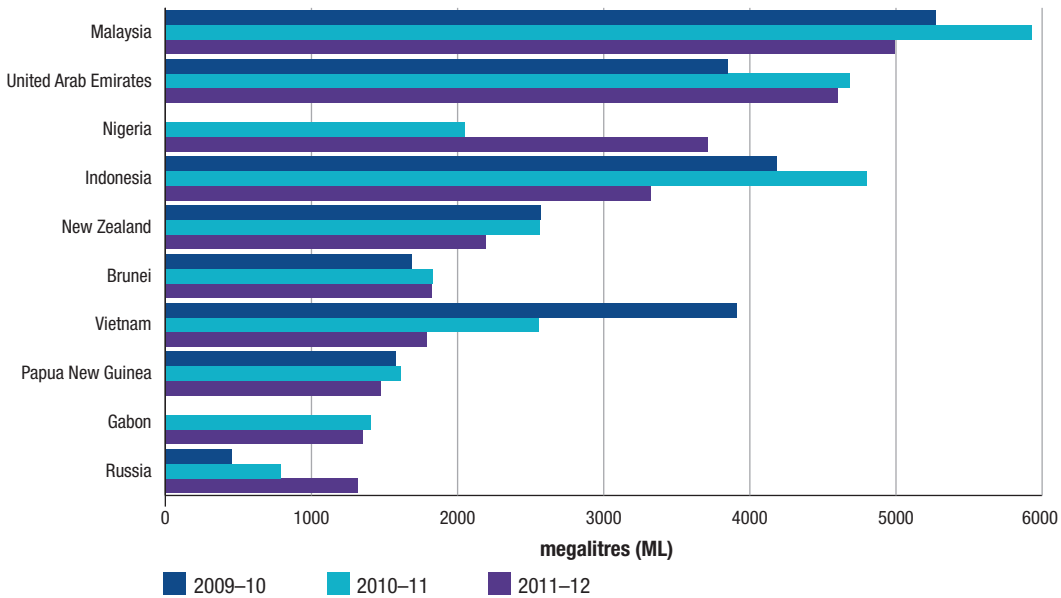
22 See Australian Petroleum Production and Exploration Association, at: <http://www.appea.com.au/oil-a-gas-in-australia/oil.html>

23 Condensate is defined in the Excise Act 1901 as either (a) liquid petroleum, that is, a mixture of hydrocarbons that is produced from gas wells and that is liquid at standard temperature and pressure after recovery in surface preparation facilities, or (b) another substance that is derived from gas associated with oil production and that is liquid at standard temperature and pressure.

3.3.2 Origin of crude oil imports

While Australia had in recent years imported crude predominantly from Asia-Pacific countries, in 2011–12 a change was evident (chart 3.2). Malaysia remained the largest source, though next were United Arab Emirates and Nigeria. There was a decline in the volume imported from Indonesia and New Zealand; and a continued decline from Vietnam, which in 2008–09 was Australia’s primary source of imports.

Chart 3.2 Major sources of crude oil imports to Australia: 2009–10 to 2011–12



Source: RET and BREE, *Australian Petroleum Statistics*, issue 191 (June 2012)

3.4 Refining

Australia’s refining sector is experiencing a period of significant change. Currently, there are six refineries operating in Australia:

- Caltex’s Kurnell refinery in Sydney
- Caltex’s Lytton refinery in Brisbane
- BP’s Bulwer Island refinery in Brisbane
- BP’s Kwinana refinery in Perth
- Mobil’s Altona refinery in Melbourne
- Shell’s Corio refinery in Geelong.²⁴

Two refineries have closed in the last 10 years. Mobil mothballed its Port Stanvac refinery in Adelaide in 2003–04 and formally announced its closure in 2009. In September–October 2012 Shell’s Clyde refinery in Sydney progressively ceased production and is now in the process of being converted to an import terminal. In July 2012 Caltex announced its intention to close its Kurnell refinery in the second half of 2014 and also convert it to an import terminal.

²⁴ For additional information on the refineries refer to chapter 4 and the 2009 petrol monitoring report, pp. 25–6.

In all three cases a key factor behind the decision to cease domestic refining in those locations was the competitive pressure stemming from larger and lower cost refineries in the wider Asia-Pacific region. Despite Kurnell having the second largest refining capacity in Australia behind Kwinana, Caltex claims that its relatively small size, combined with increased costs and a strong Australian currency has left the refinery at a disadvantage compared with Asian refineries.²⁵

The largest Asian refineries have the capacity to produce more than three times the output of refined petrol from the largest Australian refineries.²⁶ Chapter 4 discusses the significance of Asian refining capacity in a global context.

3.4.1 Refinery capacity

Over the five years to early 2012, Australia's refining capacity remained relatively steady, rising in small increments from 2007.

With the closure of the Shell Clyde refinery, Australian refining capacity fell by around 4990 ML pa, and when the proposed closure of Caltex's Kurnell refinery takes effect in 2014, capacity will drop by a further 7820 ML pa.

Table 3.1 shows the change in Australia's refinery capacity from 2007, as well as the estimated change looking ahead to the end of 2014. After Kurnell closes, Australia's refining capacity is estimated to be around 32 620 ML pa, a reduction of close to a quarter from levels in early 2012.

Table 3.1 Refining capacity and estimated change: 2007 to 2014

	2007	Jan 2012	Oct 2012	Dec 2014	2012 to 2014
	ML per annum				% change
Refining capacity	43 154	45 430	40 440	32 620	▼28.2

Source: Australian Institute of Petroleum and ACCC estimates

3.4.2 Refinery production

Over the 10 year period to 2011–12 production of petrol and diesel by domestic refineries has varied. While outages have affected annual volumes, overall diesel production has not kept pace with the dramatic increase in sales (chart 3.3).

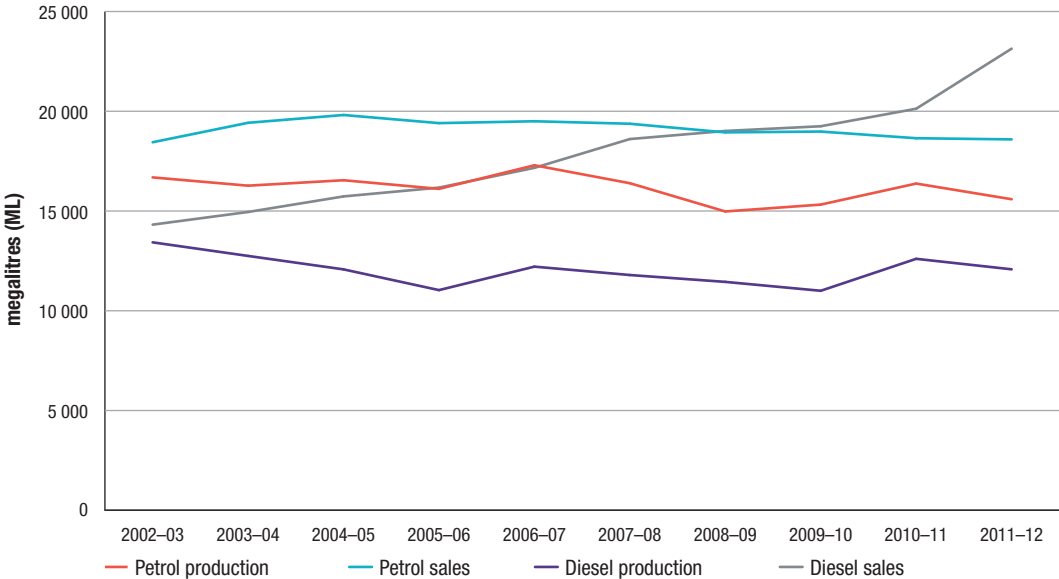
During 2011–12:

- petrol production fell from 16 400 ML to 15 500 ML, representing 83.9 per cent of sales for 2011–12
- diesel production fell slightly, though remains at around 12 000 ML which is higher than for most of the past 10 years. Despite this, a significant increase in sales meant production accounted for just 52.2 per cent of sales, the lowest level of diesel self-sufficiency over the period.

²⁵ Caltex Australia ASX/Media release, *Caltex announces supply chain restructuring*, 26 July 2012.

²⁶ BP Statistical Review of World Energy, June 2011; historical data at <http://www.bp.com/sectionbodycopy.do?categoryId=7500&contentId=7068481>

Chart 3.3 Production and sales of petrol and diesel in Australia: 2002–03 to 2011–12

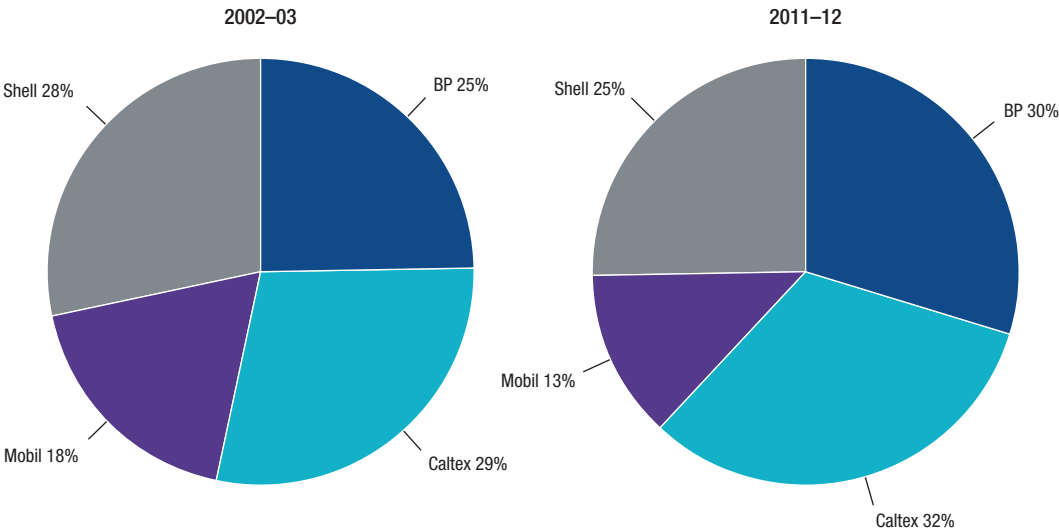


Source: ACCC analysis based on data obtained from firms monitored through ACCC’s monitoring process

3.4.3 Petrol refining market shares

Over the period from 2002–03 to 2011–12 BP, Caltex and Shell increased refinery market share, while Mobil’s share declined (chart 3.4). The most significant factor affecting shares was Mobil’s Port Stanvac refinery ceasing production in 2003–04. Looking ahead, the shares held by Shell and Caltex are expected to fall in 2012–13 and 2014–15 respectively.

Chart 3.4 Share of petrol production in Australia: 2002–03 and 2011–12



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

3.4.4 The outlook for Australian refineries

With the planned closure of Kurnell due to take place in the second half of 2014, Caltex has reported that it is entering into a long term agreement with Chevron (a 50 per cent stakeholder of Caltex) to secure the supply of refined product at market-based prices along with associated shipping services.²⁷

The recent expansion of refining capacity in the Asia-Pacific region has improved the availability of potential imports. As these refineries increasingly are able to produce fuel in line with Australian standards, the quantity of fuel potentially suitable for marketing in Australia is greater than has been in the past.

The Department of Resources, Energy and Tourism (RET) noted in its 2012 Energy White Paper that there is significant surplus refinery capacity in Asia.²⁸ This could also provide independent importers with sources of supplies.

Within Australia, access to terminals and other infrastructure associated with importing petrol is a critical factor in supporting significant growth in imports. Recent and planned expansion of independently-owned import capacity suggests that capacity may be available to cater for greater volumes. Developments are outlined in section 3.6.4 as well as in appendix C.

3.5 Imports and exports of refined fuel

With the recent reduction in local refining capability, Australia's reliance on imports of refined petroleum products has become even more pronounced.

For some time now Australia has been increasingly supplementing refinery production with imports of finished product. In 2002–03 Australia's refineries generally had the capacity to meet most domestic demand and imports of refined fuel were minimal. Ten years later imports contribute around 20 per cent of petroleum products consumed around the country.

Exports form a very minor part of the industry and are expected to diminish further over time as local refining capacity decreases. Since 2003–04 there has been a significant downward trend in petrol exports as a percentage of domestic supply.

3.5.1 Volumes of petrol and diesel imports

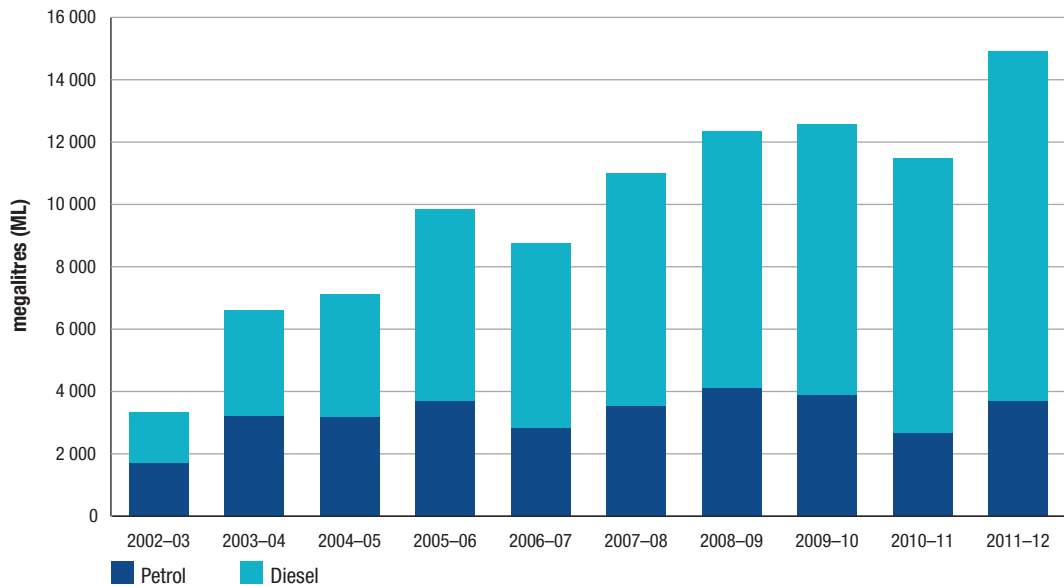
In 2011–12 the volume of imports changed slightly from the previous year (chart 3.5):

- after falling in the previous two years, total petrol imports increased in 2011–12, by 38.8 per cent to 3679 ML
- diesel imports continued the rising trend of the previous four years and increased by 27.2 per cent in 2011–12, to 11 230 ML.

Over the 10 years to 2011–12 increasing domestic diesel demand, combined with Australian refineries being configured with a petrol bias, has caused the volume of diesel imports to increase to be more than three times that of petrol.

²⁷ Caltex Australia ASX/Media release, *Caltex announces supply chain restructuring*, 26 July 2012, p. 2.

²⁸ Department of Resources, Energy and Tourism, *Energy White Paper 2012: Australia's Energy Transformation*, October 2012, p. 126.

Chart 3.5 Volumes of petrol and diesel imported into Australia: 2002–03 to 2011–12

Source: RET and BREE, *Australian Petroleum Statistics*, issues 107 (June 2005), 13 (June 2008), 179 (June 2011) and 191 (June 2012)

In 2011–12 imports by independent wholesalers of petrol continued to grow, and accounted for around 30 per cent of total imports.

3.5.2 Sources of petrol imports

In 2011–12 the bulk of refined petrol imports (74 per cent) originated from Singapore, an international refining hub that is ideally placed to service the export market (table 3.2).

For the first time since at least 2007–08, India became a source of imports, accounting for 4 per cent of total imports. Other major sources of imports were South Korea (18 per cent) and Japan (2 per cent).

Table 3.2 Sources of petrol imports into Australia: 2007–08 to 2011–12

	2007–08		2008–09		2009–10		2010–11		2011–12	
	ML	%	ML	%	ML	%	ML	%	ML	%
Singapore	3301	93	3426	84	3330	86	2101	79	2709	74
South Korea	18	0	81	2	278	7	407	15	677	18
India	0	0	0	0	0	0	0	0	147	4
Japan	0	0	41	1	58	1	30	1	62	2
Taiwan	110	3	297	7	91	2	90	3	0	0
Oman	0	0	108	3	46	1	0	0	0	0
Other	107	4	140	3	86	3	23	2	84	2
Total	3536	100	4093	100	3889	100	2651	100	3679	100

Source: RET and BREE, *Australian Petroleum Statistics*, issues 107 (June 2005), 13 (June 2008), 179 (June 2011) and 191 (June 2012)

3.6 Import terminals

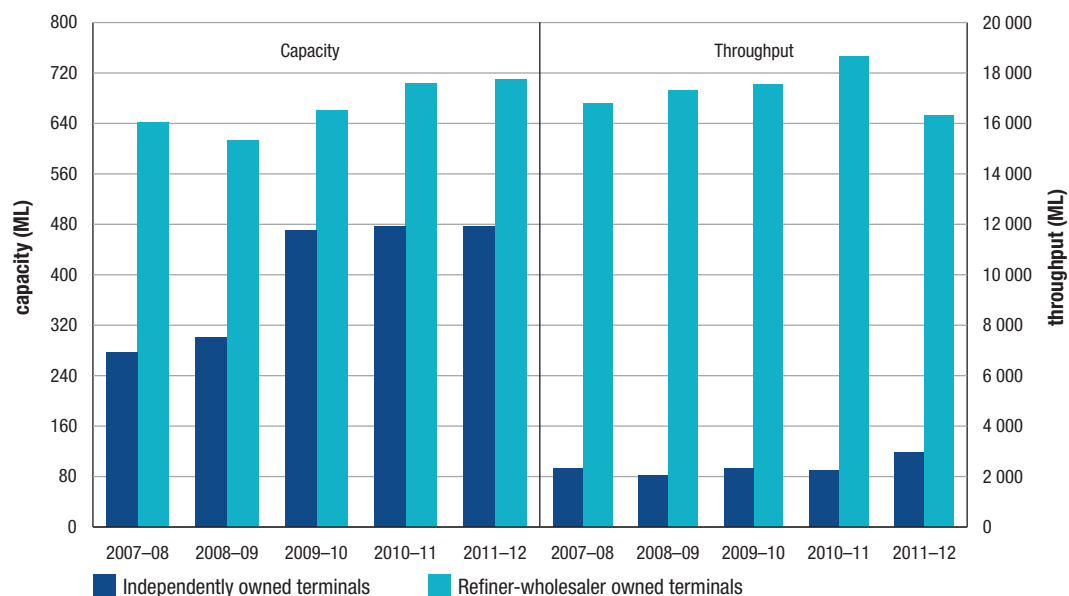
Import terminal infrastructure is operated around Australia by the refiner-wholesalers as well as major independent wholesalers/importers, and other independent companies specialising in terminal ownership and operation. As part of its monitoring activities, the ACCC collects detailed data on the use of and plans for major terminals from the users, owners and operators.²⁹

Historically, the majority of terminals have been owned and operated by the refiner-wholesalers. While this is still the case, there is a trend of increasing independent ownership and operation of terminals.

3.6.1 Capacity and throughput

From 2007–08 to 2011–12 there was a significant increase in both the capacity and throughput of independently-owned terminals (chart 3.6).³⁰ Capacity rose by 72.3 per cent, well above the 10.6 per cent increase for refiner-wholesaler owned terminals. This trend was also evident in throughput, with a 27.4 per cent increase for independently-owned terminals, compared to a 2.8 per cent decrease for those owned by refiner-wholesalers.

Chart 3.6 Petrol capacity and throughput by type of terminal owner: 2007–08 to 2011–12



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

Throughput of ethanol declined by 21.5 per cent in 2011–12 compared to 2010–11:

- New South Wales, which accounted for 67.5 per cent of total ethanol throughput, experienced a fall in throughput of 21 per cent compared with 2010–11.
- Queensland's share of throughput was 22.8 in 2011–12, a 31.1 per cent decrease compared to 2010–11. It is likely that the suspension of the announced state government ethanol mandate may have contributed to a dampening of demand for ethanol in Queensland.

²⁹ Major terminals are defined as terminals which have a pipeline connection to a port and/or refinery. They are the point at which fuel which has been refined in Australia or imported is stored, distributed or sold by refiner-wholesalers and importers.

³⁰ Throughput refers to how intensely a terminal is used, measured by the annual volume of product that goes through the terminal's truck and/or rail gantries.

3.6.2 Import terminals with spare capacity

As terminals allow companies to undertake the primary functions of storing and distributing fuel supplies, having access to this key infrastructure provides companies with a strong basis for competing in the downstream industry.

There are two types of major terminals, import terminals and refinery-pipeline terminals:

- import terminals are connected to a port, which in most cases is their only source of fuel for storage and distribution
- refinery-pipeline terminals are connected to a refinery by pipeline. They may also be connected to a port, though are likely to receive most of their fuel from the refinery. Some independently-owned terminals are in this category.

As refinery-pipeline terminals have a direct link to what is usually an ongoing source of supply, they usually have a significantly higher turnover compared with import terminals.³¹ Table 3.3 shows that in 2011–12, Australia's import terminals had an average turnover of 7.2 times compared the turnover of refinery-pipeline terminals of 28.8 times. Import terminals are also typically larger than refinery-pipeline terminals, contributing to the lower turnover.

Table 3.3 Petrol turnover by type of terminal: 2010–11 and 2011–12

	Import terminals			Refinery-pipeline terminals		
	Capacity ML	Throughput ML	Turnover times	Capacity ML	Throughput ML	Turnover times
2010–11	691.5	5019.1	7.3	488.1	15 244.6	32.5
2011–12	689.2	4941.1	7.2	497.2	14 309.9	28.8

Source: ACCC analysis based on data obtained from firms monitored through ACCC's monitoring process. Note some data may not be comparable with data in the 2011 ACCC petrol monitoring report due to data revision by one of the monitored companies

Note: Excludes Corio and Parramatta refinery-pipeline terminals (which are directly attached to refinery storage tanks and have no stand-alone storage capacity), and import terminals that exist primarily to service local mines.

Terminal access is an important aspect of independent importers' ability to compete in the petrol industry. Table 3.4 shows the key characteristics of independently owned and refiner-wholesaler owned terminals. Data in this table shows that:

- independently-owned import terminals have significantly greater total petrol capacity than those owned by refiner-wholesalers
- the turnover at independently-owned import terminals is relatively low compared to refiner-wholesaler owned terminals, suggesting the potential availability of spare capacity for independent importers.³²

³¹ Turnover refers to the number of times a terminal is effectively emptied and filled in the year.

³² It is important to note that some independently-owned terminals may be the subject of exclusive leasing arrangements.

Table 3.4 Import terminal petrol turnover by type of ownership: 2011–12

	Capacity ML	Throughput ML	Turnover times
Independently-owned	398.7	1704.1	4.3
Refiner-wholesaler owned	290.5	3237.0	11.1
Australia	689.2	4941.1	7.2

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

Note: Excludes throughput for terminals that exist primarily to service local mines.

3.6.3 Independent imports

Independent import volumes increased by 1.9 per cent in 2011–12, following an increase of over 200 per cent in the previous year. Due to greater import activity by the refiner-wholesalers, independents accounted for a smaller share of total imports in 2011–12, about 30 per cent, compared with over 40 per cent in 2010–11. This still represents a significant increase compared to four years ago. Total volumes of independent imports have increased more than 400 per cent since 2007–08 when they represented less than 5 per cent of total imports. While still comparatively small in terms of the total wholesale market, these independent imports provide a competitive discipline on the larger players.

Two of the key factors driving the growth in independent imports have been increased international availability of Australian-standard petrol, as outlined in section 3.4.4, and greater access to import terminals. There has been a significant increase in the number, capacity and accessibility of independently-owned import terminals. Consistent with the significant new investment over the last few years by independent terminal owners, refiner-wholesalers as well as smaller wholesalers/importers are increasing their use of independently-owned import terminals.³³

In the past five years, at least four independent wholesalers have imported refined petrol from various overseas markets. Currently, three of the monitored companies—Ausfuel, United and Neumann—own, or have access to, import infrastructure.

3.6.4 Major developments in terminal infrastructure

Across Australia there were a number of key developments in the use, expansion and ownership of terminal infrastructure. Following is a brief description of the most significant developments in 2011–12:³⁴

- The largest development under construction is Terminals Pty Ltd's 85 ML petrol, diesel, ethanol and biodiesel import terminal at Outer Harbour, Adelaide. Due for completion in late 2013, Caltex will use it to replace its existing Birkenhead terminal under a 25-year lease.
- At its Largs North import terminal in Adelaide, BP is building a new tank which will add 30 ML diesel capacity and is expected to be operating in August 2013.
- Mobil expanded its Birkenhead, Adelaide, import terminal with the completion of a 9 ML diesel tank.
- Caltex rebuilt its Port Hedland WA import terminal, which is now operating with a 40 ML diesel capacity.

³³ For more information on the factors driving the growth in independent imports refer 2011 ACCC petrol monitoring report, chapter 4.

³⁴ Appendix C lists all major terminals on a state-by-state basis.

- Neumann's Eagle Farm, Brisbane, import terminal commissioned its pipeline extension to a deep-water port and is building a 15 ML increase in diesel capacity, with completion due in October 2013.
- In Newcastle NSW, Stolthaven Australia Pty Ltd (formerly Marstel) has commenced construction of an import terminal, initially with a 54 ML diesel storage capacity. Shell has signed a memorandum of understanding to use this terminal which will provide fuel to the Hunter Valley and north to Gunnedah.
- In May Shell opened a 0.9 ML biodiesel tank at its Newport, Melbourne, refinery-pipeline terminal, which will be used to distribute B20 diesel fuel to its commercial customers.³⁵
- Mobil has completed a two-year maintenance program at its Yarraville, Melbourne, terminal, allowing it to increase petrol capacity by 12.2 ML. This company has also converted a fuel oil tank, increasing diesel capacity by 7.9 ML.
- At its Mackay Qld terminal, Shell opened two new diesel tanks, holding a combined 38 ML. They will supply fuel to the Bowen Basin and Far North Queensland.³⁶
- Both Caltex and Shell shifted petrol and diesel throughput from their joint terminal in Fremantle to Coogee's Kwinana terminal.

3.7 Wholesaling

The wholesale sector is comprised of the four refiner-wholesalers as well as large independent wholesalers including United, Neumann, Liberty and Ausfuel. A small number of other wholesale companies also operate in Australia's petroleum industry; however, they fall out of the scope of the ACCC's monitoring program.

3.7.1 Wholesale market share

The majority of the wholesale market is comprised of the refiner-wholesalers which account for about 90 per cent of the market monitored by the ACCC (table 3.5). Since 2005–06 there have been two significant changes in terms of market share:

- Mobil's share has decreased from 14 per cent to 10 per cent.
- Independent wholesalers United, Neumann, Ausfuel and Liberty have expanded their presence, increasing their combined share from four to seven per cent. Ausfuel is now an established player in the wholesale sector following its acquisition of the Gull network in Western Australia in 2010 as well as continuing to expand its pre-existing operation through the Northern Territory and Queensland.

³⁵ Shell Company of Australia Limited (2012), *New Shell BioDiesel 20 facility launched at Newport Terminal*, 29 May

³⁶ Shell Company of Australia Limited (2012), *Shell builds more tankage to supply Bowen Basin demand*, 31 July

Table 3.5 Monitored companies' share of wholesale petrol sale volumes: 2005–06 to 2011–12³⁷

	2005–06 %	2006–07 %	2007–08 %	2008–09 %	2009–10 %	2010–11 %	2011–12 %
BP	17	17	17	17	17	18	18
Caltex	36	36	36	36	36	36	36
Mobil	14	15	15	13	13	9	10
Shell	29	27	27	28	29	30	29
Independent wholesalers	4	4	5	6	6	8	8

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

Note: Totals may not sum to 100 due to rounding.

3.7.2 Wholesale customers

Refiner-wholesalers sell petrol in the wholesale sector to a range of different customers (table 3.6). Over the five years to 2011–12, the refiner-wholesalers' wholesale customer base has undergone some change, particularly during 2011–12.

Specialist retailers, including independents and supermarkets, have consistently been the largest group of wholesale customers. They have increased their share of refiner-wholesalers' wholesale sales every year since the commencement of monitoring, reaching a share of over 60 per cent in 2011–12. A factor in the growth in sales to specialist retailers has been the recent expansion of 7-Eleven's presence in the retail sector including their acquisition of the Mobil retail network in 2010.

Following this acquisition, 7-Eleven entered into a supply agreement with Mobil to become its sole fuel supplier, which commenced in January 2012.³⁸ Previously, Mobil had supplied its own retail sites. This was also a factor in the share of wholesale sales to refiner-wholesaler branded retailers, including branded independents, franchisees and company-owned businesses, falling to 27.7 per cent, compared with 35.7 per cent in 2007–08.

Table 3.6 Refiner-wholesalers' wholesale petrol sales by type of customer: 2007–08 to 2011–12

	2007–08 %	2008–09 %	2009–10 %	2010–11 %	2011–12 %
Resellers and distributors	9.8	9.3	7.2	8.3	8.7
Specialist retailers (incl supermarkets)	50.6	51.3	53.0	55.3	60.1
Refiner-wholesalers branded retailers ³⁹	35.7	34.8	35.8	32.6	27.7
Other retailers	3.9	4.5	3.9	3.8	3.5

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

³⁷ Some volumes are not reported to the ACCC as wholesale transactions; hence understate the market share of independent wholesalers. Accordingly the ACCC has made adjustments to the data to reflect this.

³⁸ See "7-Eleven Announces Sole Fuel Supply Agreement With Mobil", 7-Eleven, 7 June 2011, at <http://7eleven.com.au/media-centre/article/7-eleven-announces-sole-fuel-supply-agreement-with-mobil>

³⁹ Consistent with the definition in the Summary (see footnote 6), the term 'refiner-wholesalers' is used to refer to the four major petrol companies that are involved in refining as well as wholesaling activities. While only BP and Caltex are integrated from refining to retailing, Mobil and Shell are involved in wholesaling and through their wholesale activities have branding arrangements with certain retailers.

3.8 Retailing

The retail sector has continued to evolve from the situation of around 10 years ago when four refiner-marketers sold the majority of fuel to consumers, towards the current structure in which supermarkets and other independent chains now account for the majority of retail sales.

3.8.1 Retail market share

Table 3.7 shows the market share of retail petrol sales by brand over the 10 years to 2011–12. The share of the independent retail chains remained at around 17 per cent of petrol sales in 2011–12 after having experienced a significant increase in market share during 2010–11, primarily due to the sale of Mobil's retail business to 7-Eleven and On The Run. BP's share fell from 19 per cent to 16 per cent, while the supermarkets, Coles and Woolworths, rose slightly to 23 and 24 per cent respectively.

Table 3.7 Share of volume of retail petrol sales by brand: 2002–03 to 2011–12

	BP	Caltex	Mobil	Shell	Woolworths/ Caltex (co-branded)	Coles Express/ Shell (co-branded)	Independent retail chains
	%	%	%	%	%	%	%
2002–03	20	24	19	20	10	–	6
2003–04	20	22	17	3	14	16	7
2004–05	18	18	12	3	18	25	6
2005–06	19	16	11	3	20	25	6
2006–07	19	16	11	3	22	22	7
2007–08	20	17	11	2	22	20	8
2008–09	19	16	11	2	23	22	9
2009–10	17	16	10	2	23	22	10
2010–11	19	18	–	2	23	22	17
2011–12	16	18	–	2	24	23	17

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

Notes: Data is only for monitored companies, so does not include the total volume of retail sales in Australia.

In 2010–11 Mobil sold its retail sites to 7-Eleven and On The Run. Independent retail chains are: 7-Eleven, On The Run, and the retail operations of Neumann, United and Ausfuel. In 2002–03 Woolworths was not co-branded with Caltex. Totals may not add to 100 per cent due to rounding.

3.8.2 Retail business types

The brand shown at a retail site gives consumers a perspective on market participants that supply fuel to that retail site. However, branding does not always equate with ownership or with the type of ownership structure of the site. In 2011–12 only 33.9 per cent of petrol retailing businesses were directly owned and operated by the company with the brand on the site (table 3.8). The majority were owned and/or operated by distributors, independent retailers, franchisees, or commission agents. Woolworths and Coles Express were the only companies that operated all the businesses on the sites displaying their brands.

Table 3.8 Percentage of monitored retail sites by brand and business operator: 2011–12^a

Brand	Business operated by: ^b					
	Directly Owned and Operated	Distributor Owned Operations	Independent retailer	Franchisee ^d	Commission agent ^d	Total
	%	%	%	%	%	%
BP	7.6	4.5	15.9	0.4	0.0	28.3
Caltex	1.8	7.6	2.1	2.0	6.7	20.4
Mobil	0.0	2.2	0.0	0.0	0.0	2.2
Shell	0.5	0.0	4.8	0.0	0.0	5.2
Woolworths/Caltex (co-branded)	11.8	0.0	0.0	0.0	0.0	11.8
Coles Express/Shell (co-branded)	12.3	0.0	0.0	0.0	0.0	12.3
Specialist retailers ^c	0.0	0.0	2.4	8.3	0.6	11.3
Independent wholesalers	0.0	0.0	1.6	0.5	6.4	8.5
Total	33.9	14.3	26.8	11.2	13.8	100.0

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

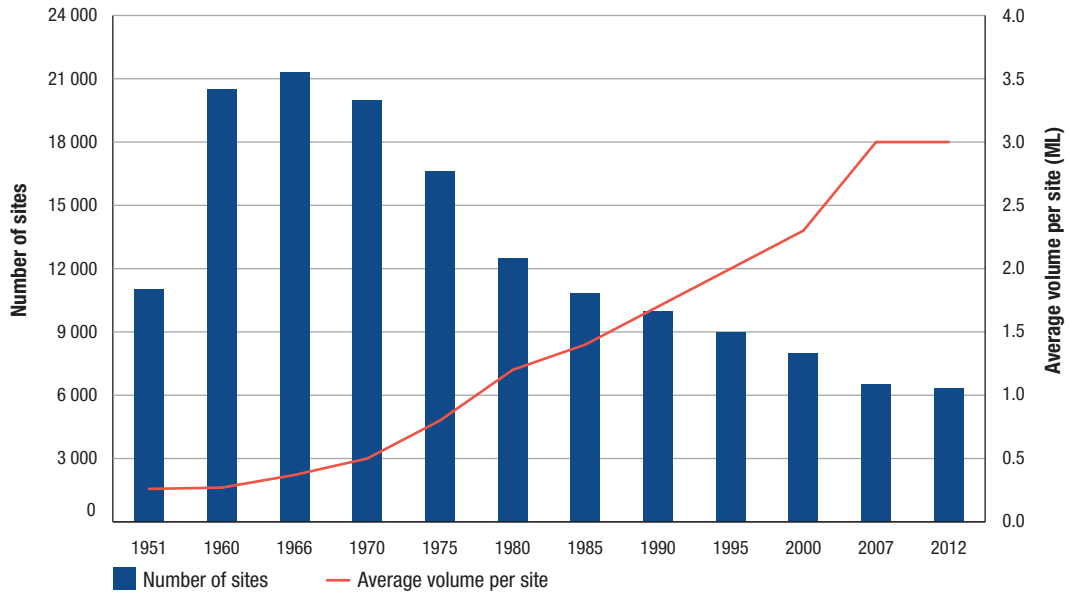
- Notes:
- a Data is only for monitored companies, so does not include the total number of retail sites in Australia. Data may not be comparable with data in previous monitoring reports due to site reclassifications by some monitored companies. Due to rounding some rows and columns may not equal the total.
 - b Sites are categorised by the operator of the business on the site, regardless of branding.
 - c Specialist retailers include those businesses operated by distributors, independent retail chains and other independents.
 - d Excludes supermarkets. Commission agents generally manage a business owned by a refiner–marketer or independent chain, and are generally compensated in the form of a commission based on the quantity of product sold. Franchisees rent a site or a number of sites and source fuel from the franchisor and brand it accordingly. They may receive price support from the franchisor (wholesaler), providing some influence over the retail prices set by the franchisee.

3.8.3 Retail site numbers

One of the most significant long term developments in the retail sector has been the decline in the number of retail sites since the 1970s (chart 3.7). It appears the trend has plateaued with the number of retail sites remaining at between 6000 and 6500 since the mid-2000s.⁴⁰

⁴⁰ Refer chapter 4, 2011 ACCC petrol monitoring report for more analysis of the decline in retail site numbers since the 1970s: <http://www.accc.gov.au/content/index.phtml/itemId/1020827>

Chart 3.7 Number of retail sites and average annual petrol sales volume per site: 1951 to 2012



Source: Royal Commission on Petroleum, *Marketing and pricing of petroleum products in Australia*, fourth report, 1976, pp. 43, 57, Annexure A on Petroleum; Petroleum Information Bureau (Australia), *Oil and Australia; the figures behind the facts*, 1958, p. 2; Prices Surveillance Authority, *National inquiry into petroleum prices*, 1990, pp. 14, 17–8; ACCC, *Inquiry into the petroleum products declaration*, vol. 1, 1996, pp. 9, 17; 2007 ACCC petrol inquiry report, p. 78; combined with data from RET, the Bureau of Infrastructure, Transport and Regional Economics, and Informed Sources

3.8.4 Developments in the retail sector

The retail sector appeared to go through a period of relative consolidation during 2011–12 following a long period of significant change. There were no major market share changes among monitored companies.

There were some instances of entry and exit, such as Ausfuel's purchase of the Choice Petroleum retail network in Gladstone, Queensland in November 2011.⁴¹

A potentially significant development is the announcement by US warehouse retailer Costco of its intention to sell discounted petrol from its stores in Australia.⁴² Costco currently operates retail stores in Sydney, Canberra and Melbourne and is due to open a store in Brisbane. The first Costco stores slated to sell discounted petrol will be in Sydney and Brisbane. Costco is reported to be the world's eighth largest general retailer, and had petrol sales in the US of 8.7 billion litres from 343 stores.

⁴¹ See Ausfuel media release of 22 November 2011 at: http://www.ausfuel.com.au/images/stories/final_mr_choice_acquisition_nov_11.pdf.

⁴² See "Costco wants its cut of cut-price petrol", *The Age*, Monday 27 August 2012, at <http://www.theage.com.au/business/costco-wants-its-cut-of-cutprice-petrol-20120826-24ufq.html?skin=text-only>

3.9 Concluding observations

Australia's downstream petroleum industry has continued to experience significant change, which is likely to continue in the years ahead.

In 2011–12 the most pertinent developments in the industry occurred in the refining sector, largely driven by competitive pressures from Asian refineries. One refinery was closed and another was announced to be closed in two years, which would leave Australia with five petrol refineries, and none in New South Wales.

Importing refined petrol will become more important in meeting Australia's demand for fuel. In 2011–12 imports of petrol increased by 38.8 per cent, and look likely to increase further to offset the loss of local refinery production.

In 2011–12 independent importers increased their volumes of petrol imports. While their share of total petrol imports fell slightly in 2011–12 due to higher import volumes by the refiner-wholesalers, independent importers still accounted for about 30 per cent. Increased access to import terminal infrastructure is a vital factor facilitating this trend.

Independents are also increasing their presence in the wholesale sector although the refiner-wholesalers still supply the majority of refined fuel in Australia.

In the retail sector, despite the presence of branding, refiner-wholesalers continue to reduce their involvement in retailing as specialist retailers continued to consolidate their presence.

