



Australian
Competition &
Consumer
Commission

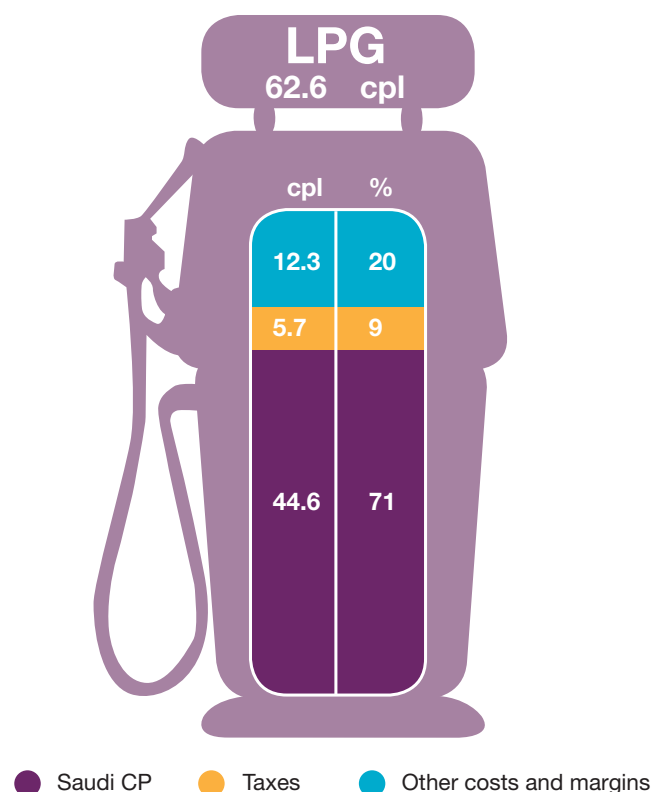
Fuel facts: Automotive LPG

What drives automotive LPG prices?

Automotive liquified petroleum gas (LPG) has been an alternative fuel choice for Australian motorists for many years. While the average retail LPG price in Australia is currently the lowest in the OECD group of advanced economies, it remains of interest to many consumers.

The price of LPG in Australia has three main components: the international price of propane and butane (which makes up automotive LPG), Australian Government taxes, and other costs of transporting and selling fuel (including a profit margin).

The average retail price of LPG in Australia's five largest capital cities during 2010–11 was 62.6 cents per litre (cpl). The chart below shows a breakdown of the retail price of LPG.



International price for propane and butane—Saudi CP (71 per cent)

The largest component of the retail LPG price (accounting for around 71 per cent of the price at the bowser) is the international price of propane and butane known as the Saudi Contract Price (Saudi CP).

Over time, international prices can vary considerably, both up and down. This has been particularly evident over the last few years. When international prices change, Australian retail LPG prices will also generally change. However, changes in the international price, which occur at the start of every month, can take around seven to fourteen days before they flow through to retail prices in capital cities and even longer in regional areas.

Because propane and butane are traded internationally in US dollars their price is also influenced by the value of the Australian dollar. In recent times, Australia has benefited from a strong Australian dollar. This has meant that Australian retail LPG prices have been lower than they might have been if the Australian dollar had been weaker.

More information on how international factors affect Australian fuel prices is available from the ACCC's publication *Fuel facts: International prices drive Australia's fuel prices*.

Taxes (9 per cent)

Taxes make up around 9 per cent of the LPG price which is lower than for other types of fuel. In 2010–2011 GST was the only tax applicable as there was no fixed excise. However, in December 2011, an excise was introduced on LPG at 2.5 cpl. The excise will increase in stages until it reaches 12.5 cpl in 2015.

Other costs and margins (20 per cent)

The international price and taxes make up around 80 per cent of the retail LPG price and are effectively fixed components that are out of retailers' control. This leaves around 20 per cent of the retail price for wholesalers, distributors and retailers to cover their costs and make a profit.

Some of the costs that businesses need to recover include: shipping LPG around Australia, terminal and storage costs, delivering LPG across the country, wages, rent and other overheads.

The other costs and margins on LPG are higher than for other fuels, primarily due to the increased cost of transporting and storing LPG and the lower volumes of LPG sold. Transporting LPG requires the use of specialised containers that are able to keep the LPG under pressure. This contributes to higher prices because these costs are spread over a relatively small volume of sales. The size of profit margins at individual retail sites is also influenced by the level of local competition. The greater the level of competition, the lower the price is likely to be at the pump.

Why do LPG prices vary so much around the country?

The volume of LPG sold at a service station has a big influence on the retail price. Outside of the capital cities, particularly Melbourne, the volumes of LPG sold can be quite low. At service station sites where LPG sales are low, the high transport and storage costs for LPG are spread across fewer sales, which can result in higher per litre prices. In addition, in regional areas competition between retailers may not be strong, especially if only one retailer chooses to sell LPG in a particular local market.

The role of the ACCC

The ACCC does not set automotive LPG prices in Australia. They are set by the market.

The ACCC's role is to ensure businesses comply with competition and consumer protection laws in the *Competition and Consumer Act 2010*. The ACCC takes allegations of breaches of these laws very seriously, and will take action where there is evidence that these laws have been broken.

The ACCC monitors the retail prices of unleaded petrol, diesel and LPG in all Australian capital cities and in around 150 regional locations. It also monitors the prices, costs and profits of the unleaded petrol industry in Australia. It uses this information to examine the competitiveness of retail fuel prices in the interests of consumers.

If you believe you have information that may suggest a breach of the laws prohibiting anti-competitive conduct, please contact the ACCC on 1300 302 502.

Where can I find more information?

You can find more information about fuel prices, including what influences the prices of petrol, diesel and automotive LPG on the ACCC website, www.accc.gov.au/fuel, along with links to other organisations and sites providing information on the fuel industry in Australia.

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice, and should not be relied on as a statement of the law in any jurisdiction. Because it is intended only as a general guide, it may contain generalisations. You should obtain professional advice if you have any specific concern.

The ACCC has made every reasonable effort to provide current and accurate information, but it does not make any guarantees regarding the accuracy, currency or completeness of that information.