



Australian  
Competition &  
Consumer  
Commission

# Fuel facts: What drives fuel prices in regional Australia?

While Australia currently has some of the lowest fuel prices among the OECD group of advanced economies, petrol is an important component of household spending, and its price is of interest to many motorists. This may be particularly so for motorists in regional locations who tend to rely more heavily on their vehicles and travel longer distances.

## What drives fuel prices in regional locations?

Fuel prices are set by competitors in the marketplace, generally based on the cost of getting fuel products to the market (including the actual cost of the fuel, taxes and other costs and margins) and the level of competition in a particular area.

Movements in retail fuel prices in regional locations are largely driven by changes in international benchmarks and the Australian/United States dollar exchange rate, just as they are in Australia's capital cities. However, fuel prices in regional locations tend to be higher and more stable than in the city for a number of reasons, including lower levels of local competition, lower fuel volumes and higher transport and storage costs. Fuel prices in regional locations are also influenced by a range of other factors like the location of fuel retail sites (for example, on a busy highway there will be higher turnover) and whether there is a convenience store or other business activities attached to the site.

Regional fuel prices also tend to change more slowly and do not generally have petrol price cycles like in Australia's largest cities and their surrounding metropolitan areas. The influence of these factors will vary between locations.

## Competition and the number of retail sites

Motorists that want the lowest price shop around for the best fuel prices. This is much easier for motorists in city areas where there are many fuel retail sites within short distances. In these areas, there may also be lower fuel prices because retailers have to compete for these customers. However, in regional locations fuel retail sites may be few and far between and serve fewer customers. This means competition in regional locations might not be as fierce as in cities, which can impact on the price charged by regional retailers.

## Volumes of fuel sold and site operation costs

As with any business, fuel retail sites need to recover the cost of running their business to remain viable. Many of these costs (such as utilities and rent) are fixed regardless of the volume of fuel sold. Generally, retail sites in regional locations are likely to sell less fuel than those in metropolitan areas, which leaves fewer sales to recover costs. For example, the average capital city retail site may sell 400 000 litres per week, while the average regional station may sell 200 000 litres. Some regional retail sites sell as little as 50 000 litres a week. This means that fuel retail sites in regional locations may need to spread their operating costs across fewer volumes potentially adding to the overall price you pay for fuel at a regional site.

Some fuel retailers may rely more heavily on convenience sales of products like drinks, snack food, newspapers and magazines or other non-fuel sales to recover costs, which may allow them to offer lower fuel prices. However, this strategy might not be as effective in regional locations where there may be fewer convenience store customers and fewer non-fuel sales. As such, fewer convenience sales can also contribute to higher fuel prices in regional locations.

## Freight and storage costs for regional locations

Additional freight and storage costs can contribute to higher fuel prices in regional locations.

Australia is a big country, so many motorists would appreciate there are generally higher costs associated with transporting goods to regional locations. There can also be additional storage costs where fuel is stored at regional depots before it is delivered to a retail outlet.

Transport costs are also generally higher for automotive LPG than for petrol and diesel because it must be transported in smaller pressurised tankers.

# Fuel facts: What drives fuel prices in regional Australia?

## Fuel prices in regional locations are slow to fall and slow to rise

Retailers in regional locations may, in general, sell lower volumes of fuel than in city, so they replenish their stocks less often. This can mean that changes in international prices and wholesale prices for fuel flow through slower than they do in cities and metropolitan areas where there is faster stock turnover. When international prices change it can take up to two weeks to flow through the supply chain to the retail level in city locations, which takes even longer for regional locations. The precise time depends on the turnover of stock and the sensitivity of specific regional retailers.

This delay in prices changing occurs both when international and wholesale prices rise and when they fall. These delays contribute to the stability of fuel prices in regional locations compared to the city. As a result of prices in regional locations not responding as quickly, it may appear that, in the short term, prices are not dropping or rising in line with prices in the city.

While regular prices cycles are a prominent feature of petrol prices in Australia's major cities, they do not generally occur in regional locations. The absence of price cycles in regional locations can exaggerate differences in city and country prices and over emphasise the stability of prices in regional locations.

## Every location is different

While many factors can influence fuel prices in regional locations, markets are dynamic and various characteristics of each location can lead to different prices in that market. It is important to keep this in mind when considering what might influence fuel prices in your location compared to another regional or metropolitan location.

## The role of the ACCC

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

The ACCC's job is to ensure businesses comply with competition and consumer protection laws. These laws are contained in the *Competition and Consumer Act 2010* (the Act). The ACCC takes allegations of breaches of these laws very seriously, and will continue to take action where there is enough proof 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 180 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.

Where a regional market looks to be of concern, the ACCC will review recent price movements and structure of the market and may visit the town and talk to local retailers to determine whether there is a need for further investigation.

Given that many regional locations have a limited number of retail sites, the ACCC also pays particular attention to potential changes in ownership of retail sites in regional locations to ensure that the sale will not result in a substantial lessening of competition in that particular market.

If you believe you have information that may suggest a breach of competition and consumer protection laws, please contact the ACCC on 1300 302 502.

## Where can I find more information?

You can find more information about fuel prices, including petrol price cycles, on the ACCC website, [www.accc.gov.au/fuel](http://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.

ISBN 978 1 921964 66 4

ACCC 02/12\_485

[www.accc.gov.au](http://www.accc.gov.au)