Australian Competition & Consumer Commission

Monitoring of the Australian petroleum industry—summary 2009

Australian Competition and Consumer Commission
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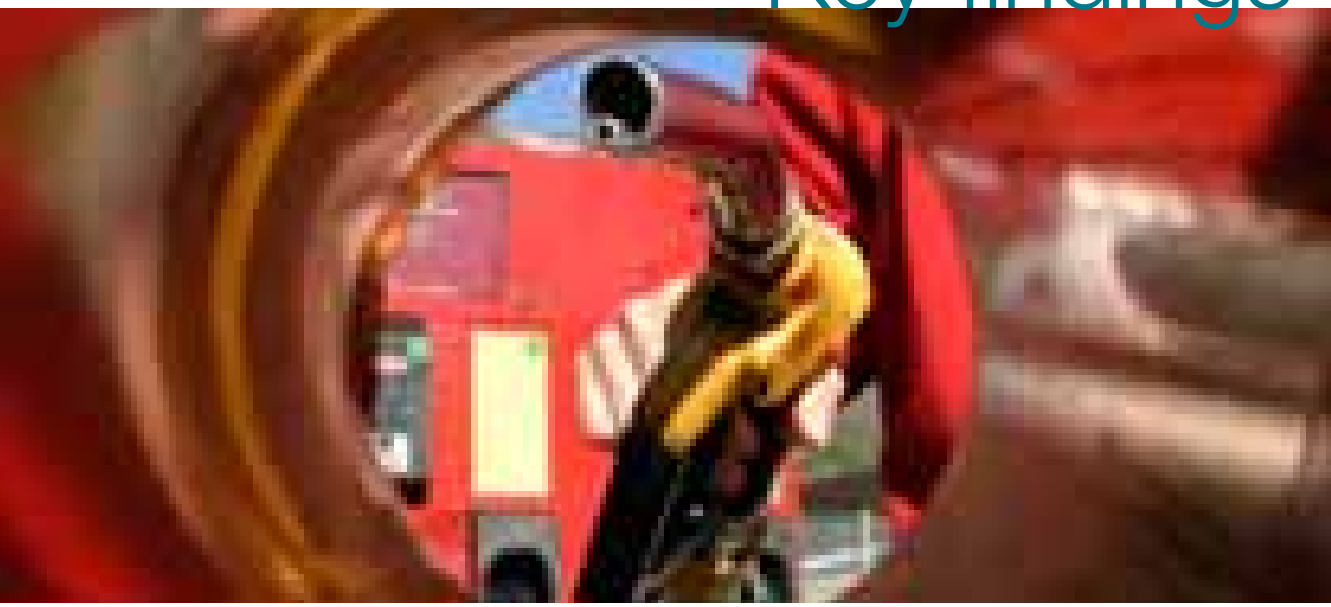


Key findings

Monitoring and analysis of retail petrol[1] prices over the 2008–09 financial year confirms two key findings:

- After reaching a peak above 160 cents per litre (cpl) in July 2008, retail prices fell rapidly between October and December 2008 with the onset of the global financial crisis. Prices then increased in January and February 2009 by about 20 cpl and since then have remained relatively stable.
- The most important influences on retail petrol prices have been
  - the international price of refined petroleum (Mogas 95)
  - the exchange rate of the Australian dollar against the US dollar
  - the well-established weekly retail price cycles which operate in the large capital cities and affect the day-to-day prices of petrol.

Price movements over 2008–09

- There was a large fall in retail prices of around 62 cpl from the peak in July 2008. This was commensurate with a decrease in Mogas 95 of about 62 cpl over the same period.
- Retail prices increased by about 27 cpl from their low in December 2008 to their peak in August 2009. Over the same period, Mogas 95 increased by around 29 cpl.
- Since March 2009, prices have remained relatively stable.
- Average retail prices have generally followed movements in Mogas 95 closely. However, from time to time there have been small divergences between movements in local and international prices. These differences have been due to local competitive factors and variations in the time it takes for international price changes to flow through the supply chain.
- A well-established and regular weekly price cycle is clearly evident in the capital cities (though not in the regional centres and country towns). These cycles have become more stable and greater in magnitude in recent years.

1 In this report, the term 'petrol' is used as a shorthand reference to unleaded petrol. Where a specific type of petrol is addressed it will be identified by its specific title: regular unleaded petrol (RULP), premium unleaded petrol (PULP) or ethanol blended petrol (EBP or E10).

- The size of the petrol price cycle has increased over the past five years and there has been a change in the days of the week when prices most commonly peak and trough. As the ACCC indicated earlier in 2009, the cheapest day in Sydney, Melbourne, Brisbane and Adelaide moved from Tuesday to Wednesday. Wednesday remains the cheapest day to buy petrol in those cities.

Profits

Based on analysis of the data obtained through the monitoring program, the ACCC has determined that:

- over the past seven years the net profit on petrol for the combined refining, wholesale and retail sectors has typically been in the range of 2 cpl to 6 cpl
- net profit on petrol is estimated to have averaged 3.1 cpl over the past seven years
- in 2008–09, petrol companies made a net loss of 2.3 cpl on petrol sales
- the petrol companies in aggregate made a net loss of approximately $480 million on the sale of petrol in 2008–09.


Petrol

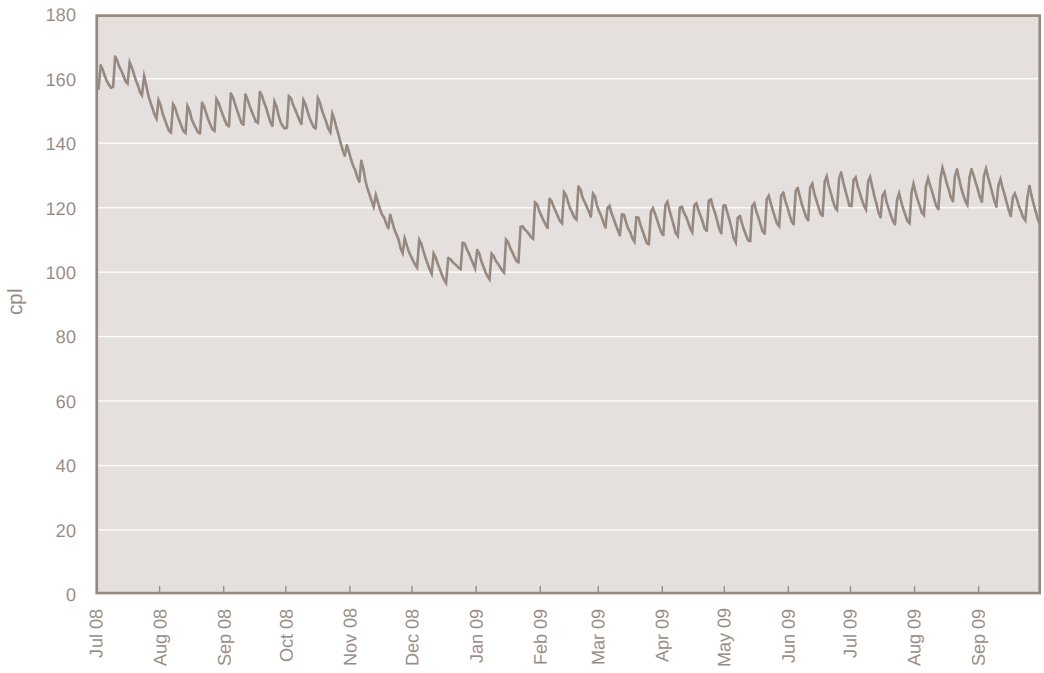
Summary

Summary

Retail prices and international benchmark prices

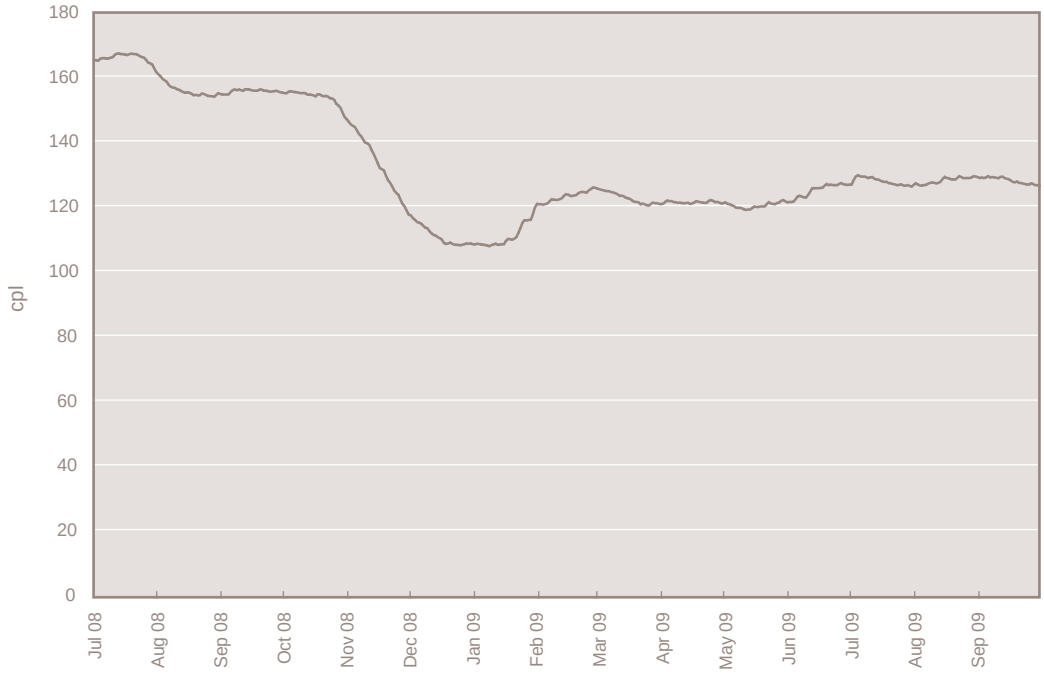
Movements in retail prices over 2008–09 are shown below. Chart 1 shows average petrol prices across the five largest cities on a daily basis between 1 July 2008 and 30 September 2009. Chart 2 shows average prices across the 150 regional centres and country towns monitored by the ACCC on a daily basis for the same period.

Chart 1 Average daily petrol prices in the five largest cities: 1 July 2008 to 30 September 2009



Source: ACCC and Informed Sources.

Chart 2 Average daily petrol prices in the 150 regional centres and country towns monitored by the ACCC: 1 July 2008 to 30 September 2009



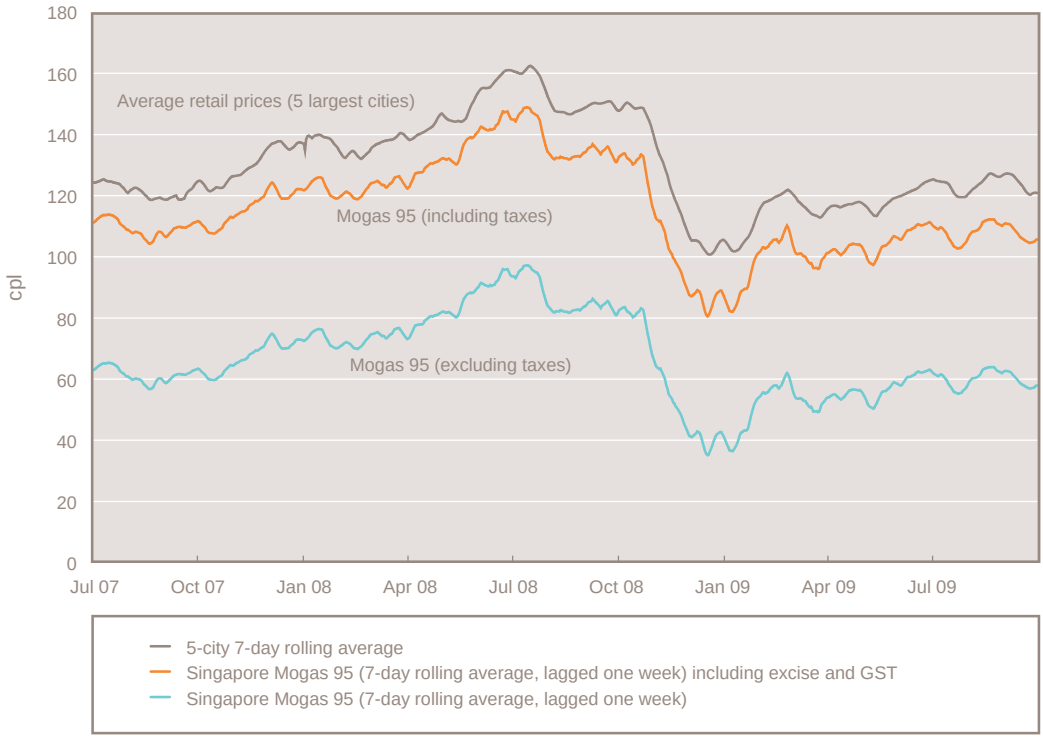
Source: ACCC and Informed Sources.

Note: Before 1 July 2009 the ACCC monitored prices in 110 regional centres and country towns. After 1 July 2009 the ACCC expanded its monitoring to 150 regional centres and country towns.

Movements (both up and down) in the international price of refined petrol over the past two years have generally been passed on to Australian motorists. The international benchmark is the price of Singapore Mogas 95 unleaded (Mogas 95). Singapore is the regional hub for the sale of a variety of petroleum-based products into Australia, so petrol companies use Mogas 95 as a basis for calculating the price of petrol in Australia.

Chart 3 shows that most movements in Mogas 95 have flowed through to the average price of petrol (after adjusting for exchange rate movements). For example, between the peak in July and the trough in December 2008, Mogas 95 decreased by 62.2 cpl and average retail prices in the five largest cities decreased by 61.8 cpl. Between December 2008 and August 2009, Mogas 95 increased by 28.8 cpl while average retail prices increased by 26.6 cpl.

Chart 3 Movements in retail petrol prices and Singapore benchmark prices: 1 July 2007 to 30 September 2009



Source: ACCC calculations based on Platts, CBA and Informed Sources data.

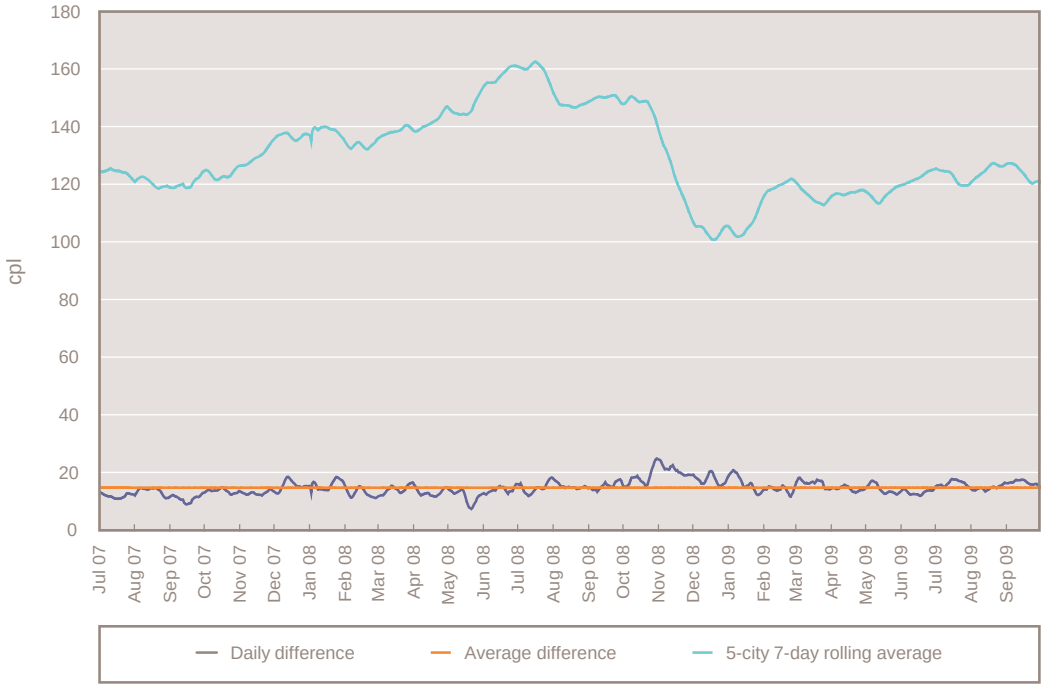
Throughout 2008, petrol prices were extremely volatile. There was a record price increase between February and July (132.0 cpl to 162.5 cpl) and a record price decrease between July and December (162.5 cpl to 100.8 cpl). Over this period, the usual lags between international and local prices were put under stress. As a consequence of the turmoil in international crude oil and refined petrol prices, the local industry made a loss in aggregate over this period.

Despite these extreme price movements, local prices generally continued to track international prices closely. Chart 4 shows the course of local prices since July 2007 (five largest cities, seven-day moving average) as well as the difference between international prices (Mogas 95 lagged seven days) and local prices. As can be seen in the chart, the difference between international and local prices has remained relatively stable, averaging about 15 cpl over the period. This difference between international and local prices is due to wholesale and retail margins and other costs, including the cost of freight to Australia and the cost of operating terminals and service stations.

Nevertheless, from time to time there have been small divergences between the two price series. Examples of these differences can be seen in chart 4. Sometimes the difference was above the average and at other times it was below the average. In view of the dynamics involved, some short-term deviations are not unexpected. Australian retail petrol prices are affected by price cycles and local competition. In addition, the lag between movements in international prices and Australian prices is not predefined. The length of the lag depends on factors such as the speed with which products move through the supply chain, the dates on which purchases are made, the speed of the international price movement and the contractual arrangements.

Consequently, short-term comparisons at a particular point in time can be misleading, especially if different points in the price cycle are chosen. Where possible, comparisons between international and local prices should be viewed over longer periods.

Chart 4 Differences between average retail RULP prices in the five largest cities and Mogas 95 (lagged seven days): 1 July 2007 to 30 September 2009



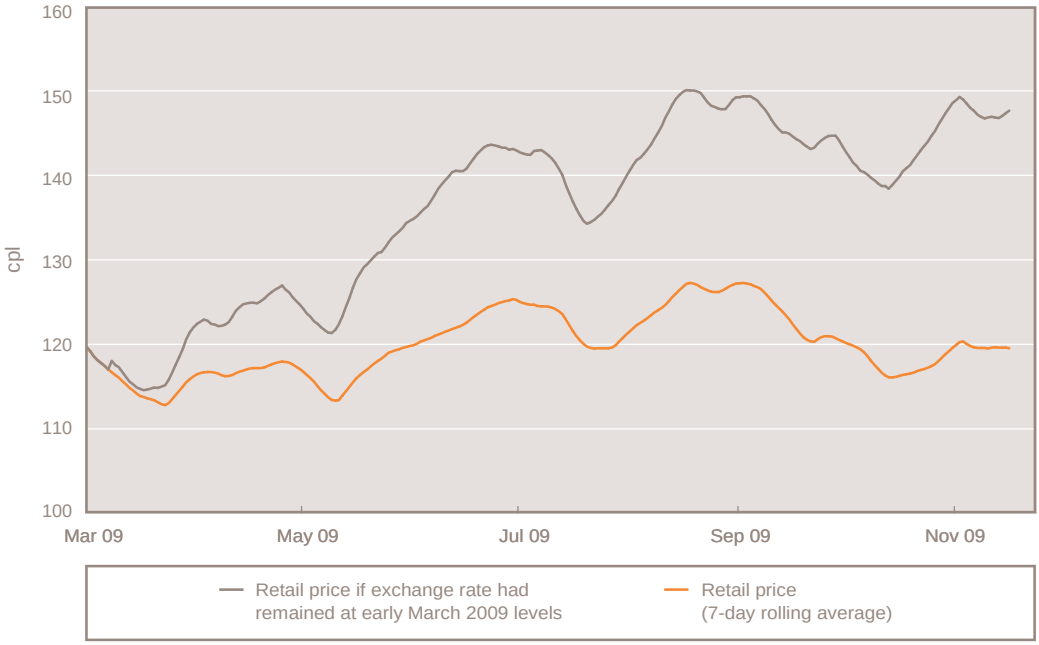
Source: ACCC calculations based on Platts, CBA and Informed Sources data.

Note: Prices include excise and GST.

Retail prices and the exchange rate

As Mogas 95 is priced in US dollars, changes in the value of the Australian dollar affect the domestic price of petrol. As is shown in chart 5, the increase in the value of the Australian dollar since March 2009 has largely mitigated the rise in the (US dollar denominated) price of Mogas 95.

Chart 5 Comparison of Australian average retail petrol prices since March 2009 with floating exchange rate and March exchange rate: 3 March 2009 to 18 November 2009



Source: ACCC calculations based on Platts, CBA and Informed Sources data.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Price cycles

Retail prices in the larger cities have tended to move in regular cycles. These cycles are a major cause of concern for many motorists. The degree of coordination exhibited in the price cycle is also a concern for the ACCC. The regularity of weekly price cycles has enabled the refiner–marketers and major retailers to understand and predict the likely response to changes of their own behaviour. Petrol markets in Australia are predisposed to coordinated conduct due to factors such as the repeated nature of competitive interaction combined with the high degree of communication of retail prices between major players in the market. In these circumstances less competitive outcomes can result.

The operation of the restoration component of the price cycle was an issue of concern in the ACCC's consideration of the proposed acquisition of Mobil Oil Australia's retail assets by Caltex Australia Ltd. The ACCC concluded that it was likely the proposed acquisition would increase the effectiveness of the current market practices which act to limit competition in petrol retailing. The ACCC formed the view that, as one of the leaders of the weekly price cycle in these cities, the increase in Caltex's market share would increase the likelihood of stable price increases, particularly compared to a situation where some or all of the sites are acquired by more maverick or aggressive retailers.

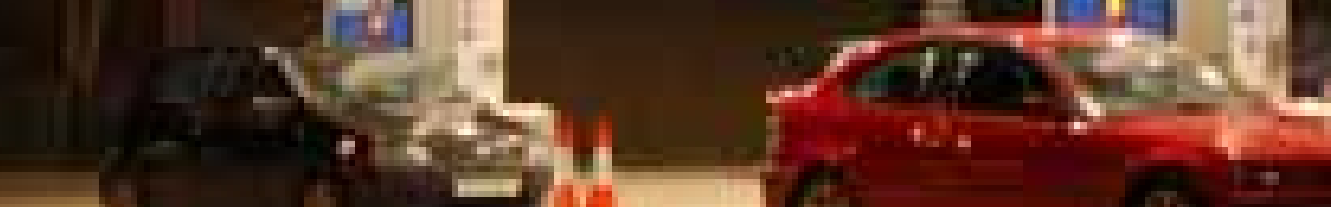
The ACCC considered that this coordination is facilitated through the frequent exchange of pricing information between competitors via the Informed Sources Oil Pricewatch System. The ACCC considered that the enhancement of coordinated conduct resulting from Caltex's acquisition of 302 sites from Mobil was likely to substantially lessen competition in contravention of section 50 of the *Trade Practices Act 1974* (the Act).

While the ACCC was able to take into account the increased capacity to engage in coordinated conduct in its consideration of the proposed acquisition under section 50 of the Act, the ACCC is concerned that facilitating practices which assist such coordinated conduct do not appear to be adequately addressed under now well-established court interpretation of section 45.

What is a price cycle?

The regular pattern of these cycles is clearly evident in chart 1. Chart 6 illustrates the pattern of the price cycle in finer detail. It shows daily prices in Sydney, Melbourne, Brisbane, Adelaide and Perth over August and September 2009. The price cycle has two distinct phases:

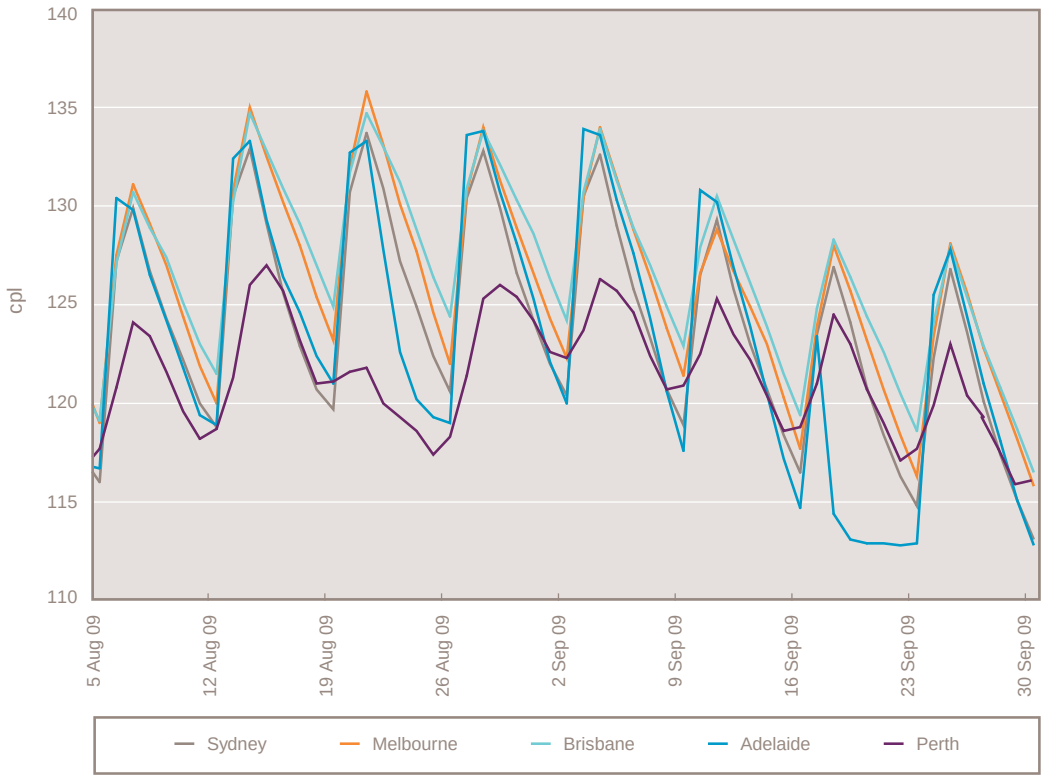
- a price restoration phase
- a discounting phase.



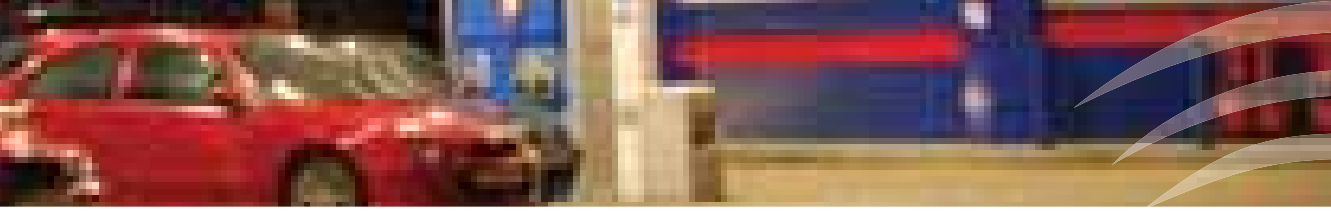
During the price restoration phase, prices generally increase sharply over a period of 24 hours and then steadily decline over the rest of the week during the discount phase. The price restoration phase is led by three major refiner–marketers—Caltex, Mobil and BP. In the discounting phase the most active retailers are usually Woolworths, 7-Eleven, particular independents (for example, United), and to a lesser extent Coles Express.

These cycles do not occur in the international benchmarks; they are due to the pricing policies employed by the local petrol companies in the face of local competition. In particular, the existence of the price cycle suggests that each of the major players has adopted similar pricing strategies. Where one or more of the major players does not follow the typical pattern, the price cycle can break down. In chart 6 there is an example of the price cycle breaking down in Adelaide in mid-September 2009 and in Perth in mid-August 2009.

Chart 6 Daily retail prices in the five largest cities: Wednesday, 5 August 2009 to Thursday, 1 October 2009



Source: Informed Sources.



The stability and magnitude of the price cycle have increased in recent years

The magnitude of the price cycle varies from time to time and place to place, but typically the price increase from trough to peak in 2009 has been in the order of 10 cpl. This means that, depending on the phase of the cycle, local prices can diverge from the international benchmark by several cents per litre on any particular day.

The ACCC has observed that the stability and amplitude of the price cycle has increased in recent years. Table 1 shows that the average amplitude of the price cycle in the five largest cities has generally increased in both absolute and proportional terms since 2005.

Table 1 Average amplitude of the price cycle in the five largest cities: 2005 to 2009

	Sydney		Melbourne		Brisbane		Adelaide		Perth	
	cpl	%	cpl	%	cpl	%	cpl	%	cpl	%
2005	7.0	6.3	7.1	6.4	7.1	6.9	7.6	6.7	10.8	9.8
2006	9.0	7.2	9.2	7.3	8.2	7.0	9.8	7.8	7.3	5.9
2007	9.4	7.5	9.6	7.7	8.4	7.1	10.3	8.3	8	6.4
2008	10.1	7.1	9.9	6.9	8.5	6.3	11.2	7.9	9.1	6.5
2009 (to 30 Nov)	12.3	10.3	11.1	9.2	9.3	7.9	13.4	11.2	7.7	6.6

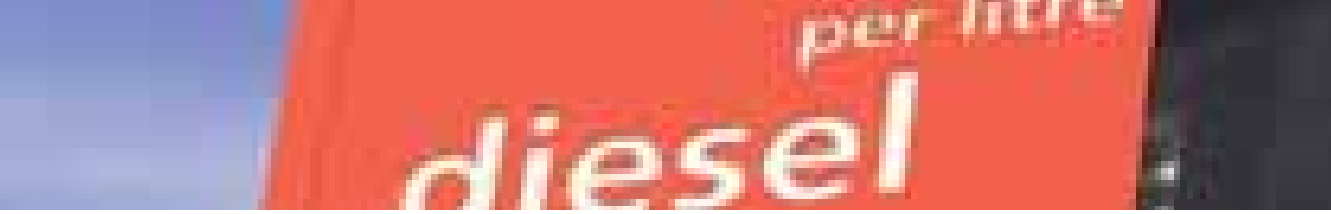
Source: ACCC and Informed Sources.

The cheapest day of the price cycle has varied over time

Over the past five years there has been a change in the days of the week on which petrol prices peak and trough in the five largest cities.

In 2005 the most common day on which daily average prices were at the trough of the price cycle was Tuesday in Sydney and Melbourne, Thursday in Brisbane, Friday in Adelaide and Monday in Perth. By 2009 this had changed to Wednesday in Sydney, Melbourne, Brisbane and Adelaide. In Perth, where FuelWatch operates, the cycle is less consistent and pronounced; Tuesday is the most common day for the trough.

A similar change occurred in peaks. In 2005 in Sydney, Melbourne and Brisbane, Thursday was the most common day of the week on which daily average prices were at the peak of the price cycle. By 2009 this had changed to Friday. In 2005 the most common day of the week for peaks in Adelaide was Sunday, and in Perth it was equally Tuesday and Thursday. By 2009 this had changed to Thursday in Adelaide. The most common day for the peak in Perth was Friday.

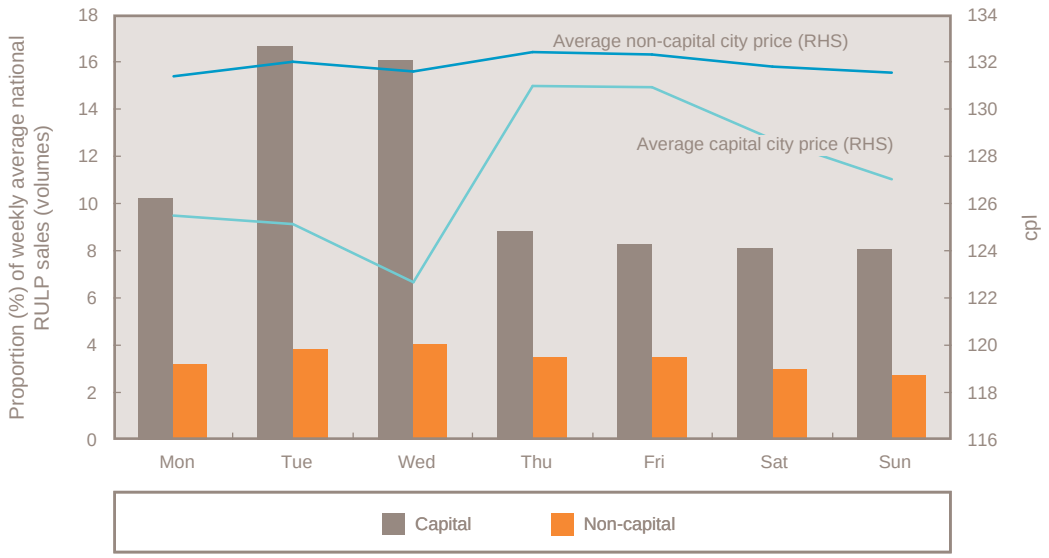


More petrol has been sold on the cheaper days of the price cycle

Chart 7 shows that over 2008–09 RULP sales were higher on Tuesdays and Wednesdays, when prices were at their lowest during the week. This is not surprising given that price cycles have been a relatively predictable event and have been evident in Australia's largest cities for many years. However, the chart also shows that a sizable proportion of RULP has been sold on the more expensive days. Presumably, consumers who purchase fuel on the more expensive days are either less price sensitive or have less flexibility in timing their fuel purchases.

In non-capital cities and regional areas of Australia, where regular price cycles generally do not occur, RULP sales are more consistent over the week.

Chart 7 Average national RULP sales and prices by day of the week: 2008–09



Source: ACCC analysis from data supplied through its monitoring process and Informed Sources.

Note: Each column represents the proportion of total national weekly volume sold.

Price cycles and Australian motorists

Price cycles are a major concern for many motorists. The ACCC receives a large number of complaints about the operation of the price cycle each year. Nevertheless, many motorists have been able to take advantage of the price cycle to purchase fuel on the cheaper days of the week. Further, until now average retail price levels do not appear to have varied substantially from the international benchmark.

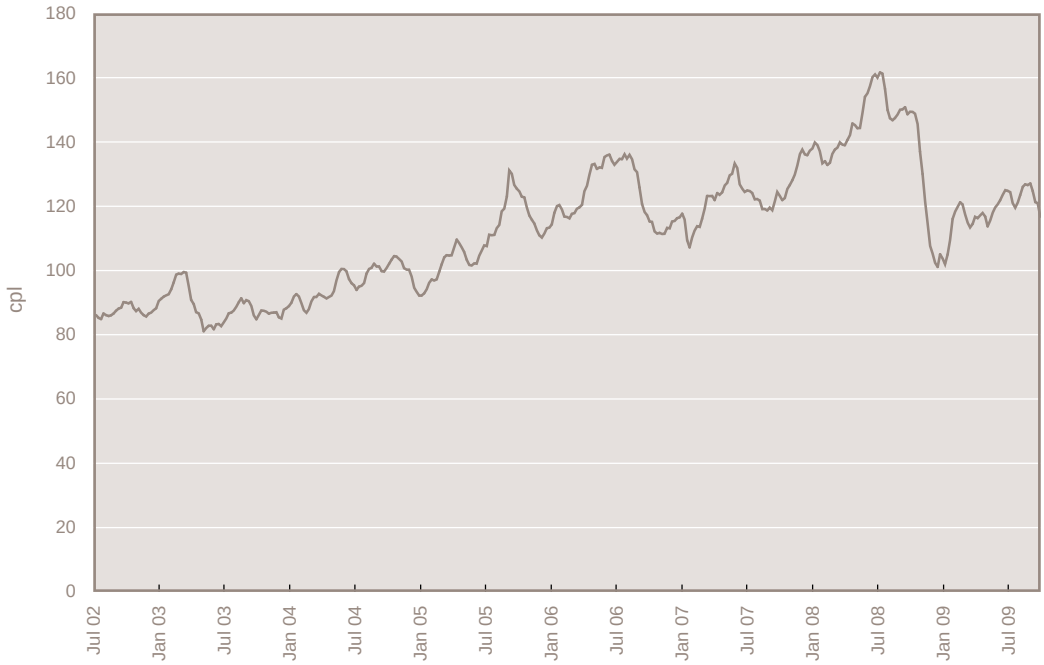
However, the degree of coordination exhibited in the price cycle is a concern for the ACCC. The regularity of weekly price cycles has enabled the refiner–marketers and major retailers to understand and predict the likely response to changes of their own behaviour. Petrol markets in Australia are predisposed to coordinated conduct due to factors such as the repeated nature of competitive interaction combined with the high degree of communication of retail prices between major players in the market. In these circumstances less competitive outcomes can result.

How have prices moved in the longer term?

Over the past seven years, petrol prices have been highly volatile. This was especially the case during 2008, when prices rose rapidly before collapsing with the onset of the global financial crisis (see chart 8). Key features of price movements over the past seven years include:

- Between July 2002 and July 2008, a clear upward trend in prices was evident.
- Prices fell sharply in the second half of 2008.
- There has been a significant increase in prices (about 15 per cent) since the trough in December 2008.

Chart 8 Average monthly petrol prices in the five largest cities: July 2002 to September 2009

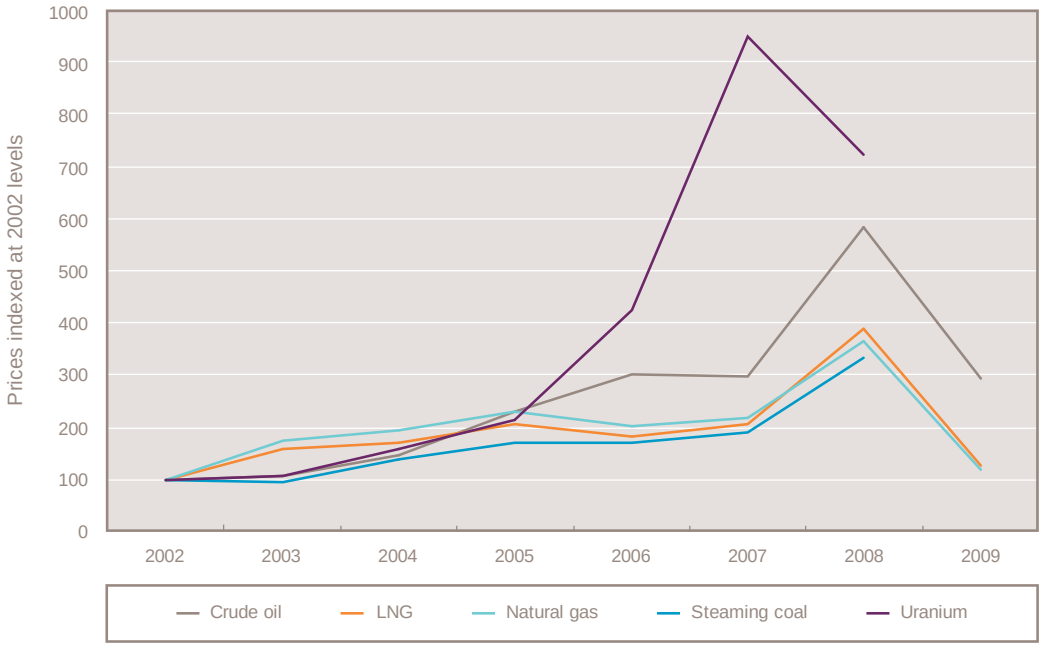


Source: ACCC and Informed Sources.

The increase in petrol prices since 2002 reflects a broader trend in the price of energy commodities

Since 2002, the price of crude oil has increased, but this increase has not been unique to oil. Chart 9 shows that there have also been increases in the prices of other energy commodities. This was especially the case in 2008, when there were substantial increases in the price of crude oil, liquefied natural gas, natural gas and steaming coal. Where price data is available for 2009, it reveals that the price of energy commodities has fallen with the onset of the global financial crisis.

Chart 9 Movements in the international prices of energy commodities: 2002 to 2009

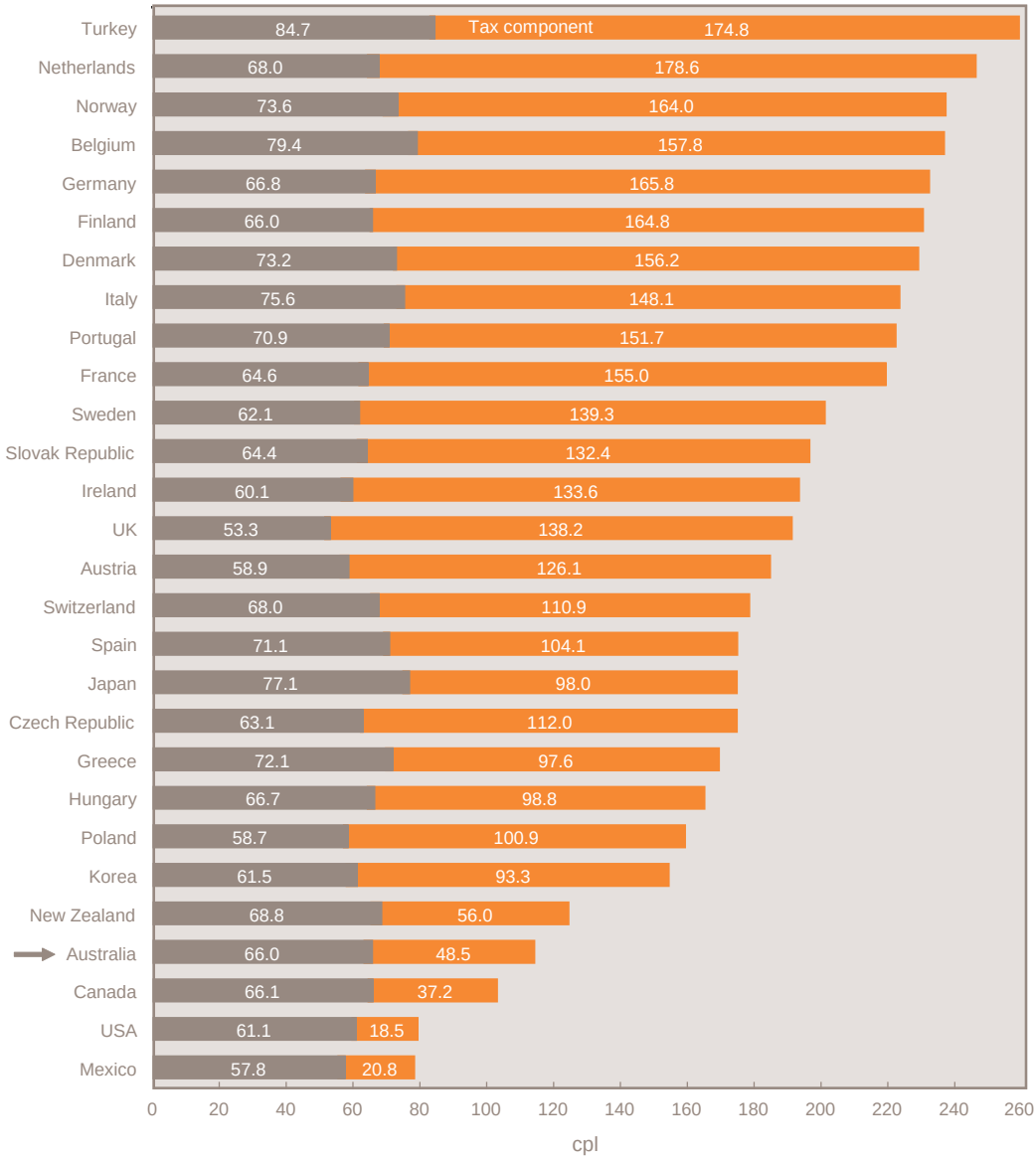


Source: ACCC; United States Energy Information Administration; and BP *Statistical Review of World Energy*, June 2009.

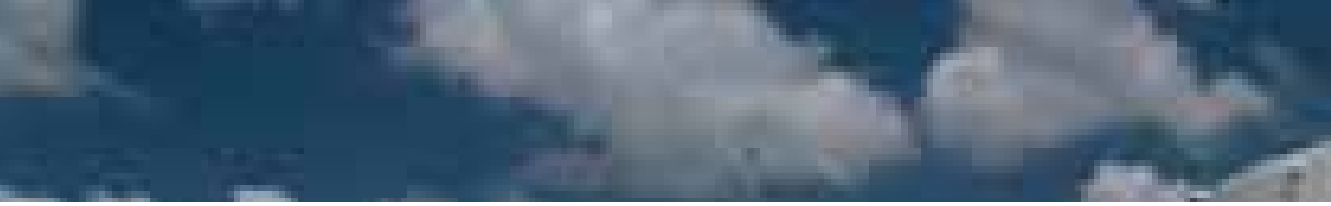
Petrol prices in Australia compared to prices in other countries

Overall, retail petrol prices in Australia have been low compared with other countries in the Organisation for Economic Co-operation and Development (OECD) (see chart 10). In the March quarter of 2009, Australia had the fourth-lowest petrol prices. Petrol prices in 11 countries were $A2 per litre or more and petrol prices in 23 countries were $1.50 per litre or more. To a large degree, the lower petrol prices in Australia have been due to lower taxation. If the impact of taxation is removed, the underlying price of petrol in Australia has been around the median.

Chart 10 Petrol prices and taxes in OECD countries: March quarter 2009



Source: Department of Resources, Energy and Tourism, *Australian Petroleum Statistics*, issue no. 155 (June 2009).



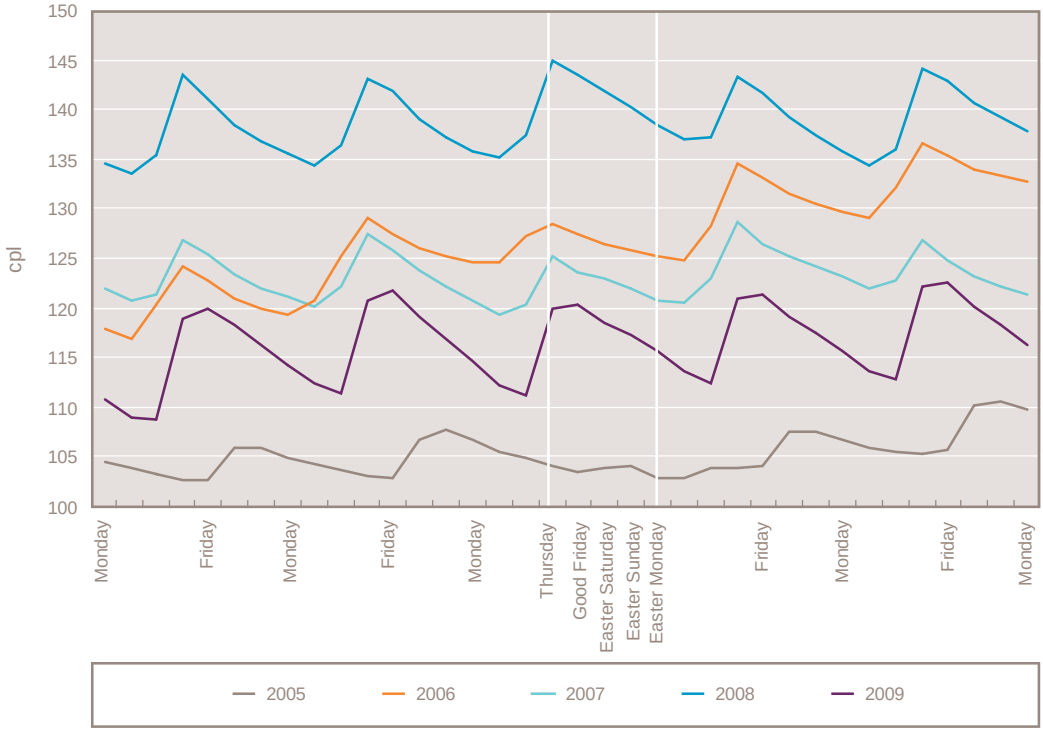
Petrol price movements around public holidays have been in line with movements at other times

There is a perception in the community that petrol prices increase by more than usual just before public holidays and long weekends. To test this perception, the ACCC conducted a detailed review of prices in the five largest cities around every public holiday. This price data shows that price movements around public holidays have been similar to price movements at other times.

By way of example, charts 11 and 12 show average daily prices in the five largest cities around the Easter and Christmas periods for the past five years. In all cases the regular weekly price cycle is evident, but price changes appear to have been in line with the weeks before and after the holiday.

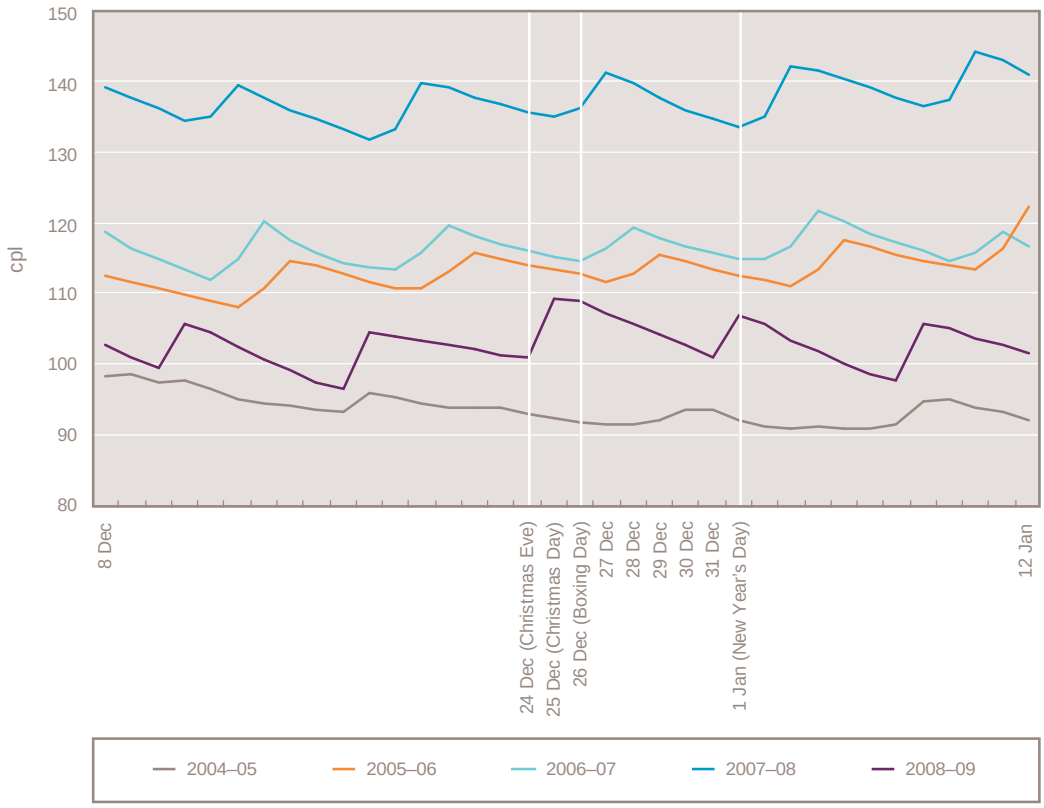
In part, the perception that price increases are unusually large just before holidays may be due to the operation of the regular weekly cycle, which causes prices to rise just before all weekends, not just holiday weekends. Price rises may be more noticeable before holiday weekends because a large number of motorists make long trips, using more petrol than usual.

Chart 11 Average daily retail prices in the five largest cities over the Easter period: 2005 to 2009



Source: ACCC and Informed Sources.

Chart 12 Average daily retail prices in the five largest cities over the Christmas / New Year period: 2004–05 to 2008–09

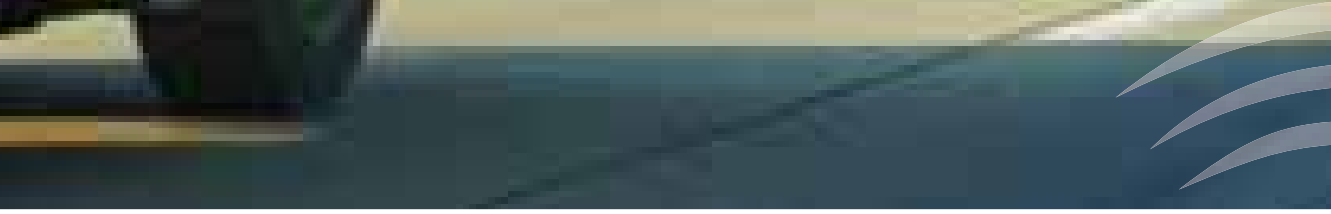


Source: ACCC and Informed Sources.

Price levels have varied between service station operators

The ACCC has found that not all operators in a location have charged the same price. The price charged at an individual site can vary due to the location, quality or size of the site, the other products available at the site, the number and identity of the other service stations in the area and the pricing policies of the operators. In its statement of issues on the proposed acquisition of Mobil's retail assets by Caltex, the ACCC noted that there was a distinct ordering in the average retail prices offered by the major retailers examined over weekly price cycles. Among the five retailers examined:

- 7-Eleven and Woolworths generally had the lowest average prices over the cycle—with average retail pump prices up to 0.4 cpl below those of the Mobil sites, depending on the capital city



- Coles Express had average prices over the cycle that were lower than those of Caltex in three of the four capital cities
- Mobil had average prices over the cycle that were between 0.1 cpl and 0.7 cpl lower than those of Caltex.

The ACCC's preliminary view was that there were two reasons for these differences in average prices over weekly cycles. First, Mobil and the Caltex sites on average increased prices at the start of the price cycle earlier and often more quickly than Woolworths and 7-Eleven. As a result, there were periods (usually lasting a few hours) when Mobil and the Caltex sites had significantly higher prices than 7-Eleven or Woolworths.

Second, during the discounting phase of the price cycle, it appears that the Caltex sites on average did not reduce their prices as rapidly or by as much as Woolworths, 7-Eleven and Mobil.

Prices in regional centres and country towns have been higher than prices in the city

While country and city prices have followed the same broad trends, country prices have tended to be higher than city prices. The difference in prices between city and country locations has been around 6 cpl on average, but the differential has varied depending on the features of the particular location.

There is no single variable which explains the differential. The factors the ACCC has found to be important include:

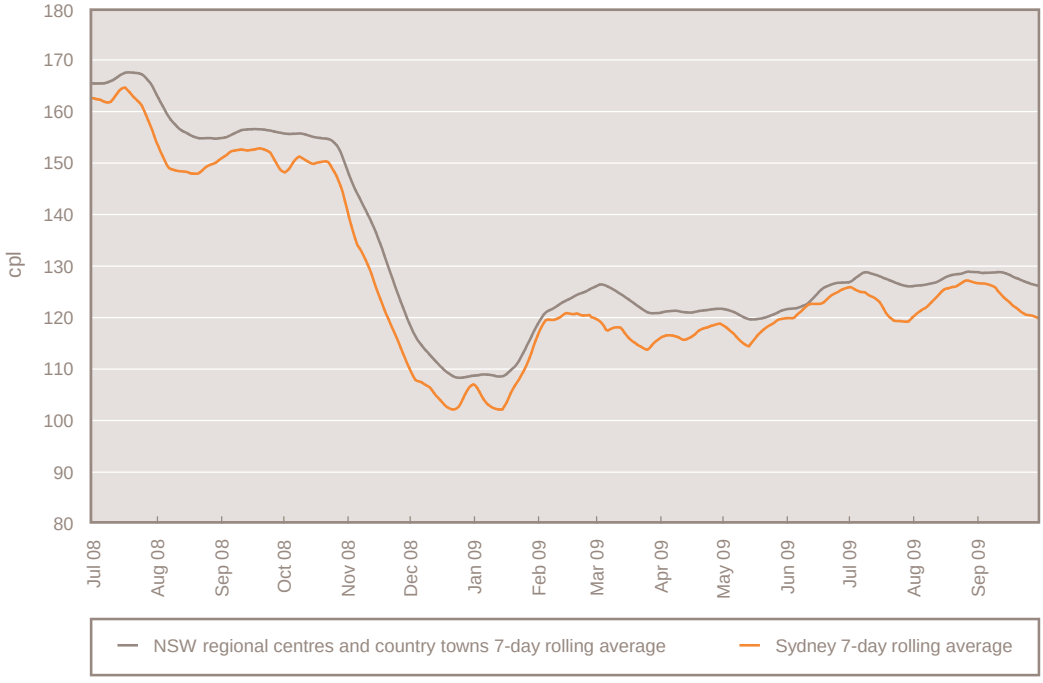
- volumes sold—this factor has a significant bearing on prices: the ACCC has found that if a typical country service station is selling around half the volume of a typical city service station then it needs to sell petrol at around 4 cpl more to earn the same return on sales
- convenience store sales—these usually make a greater contribution in the city to service station operating costs, such as the wages of the console operator
- population—usually locations with larger populations have lower prices, but the relationship has not been strong
- number of service stations—again, prices have usually been lower in locations with more service stations, but this relationship has also been weak
- distance—usually the further the location from a refinery or major terminal, the higher the price.

Prices in regional centres and country towns have responded more slowly to movements in the international benchmarks than prices in the city

The lag between Mogas 95 and local retail prices is longer in the country than in the capital cities. By way of example, chart 13 shows prices in Sydney against the average price in the rest of New South Wales. From the chart it is evident that prices in country New South Wales are typically higher than those in Sydney, but also that it takes longer for country prices to respond to both increases and decreases in the international benchmark. This is also true for the capital cities and regional areas in the other states.

Typically, country service stations sell less petrol than city service stations and are more distant from the refineries and major terminals. Consequently, it takes longer for product to move through the supply chain and so it takes longer for international price movements to affect retail prices in regional areas.

Chart 13 Average daily prices in Sydney and the rest of New South Wales: 1 July 2008 to 30 September 2009

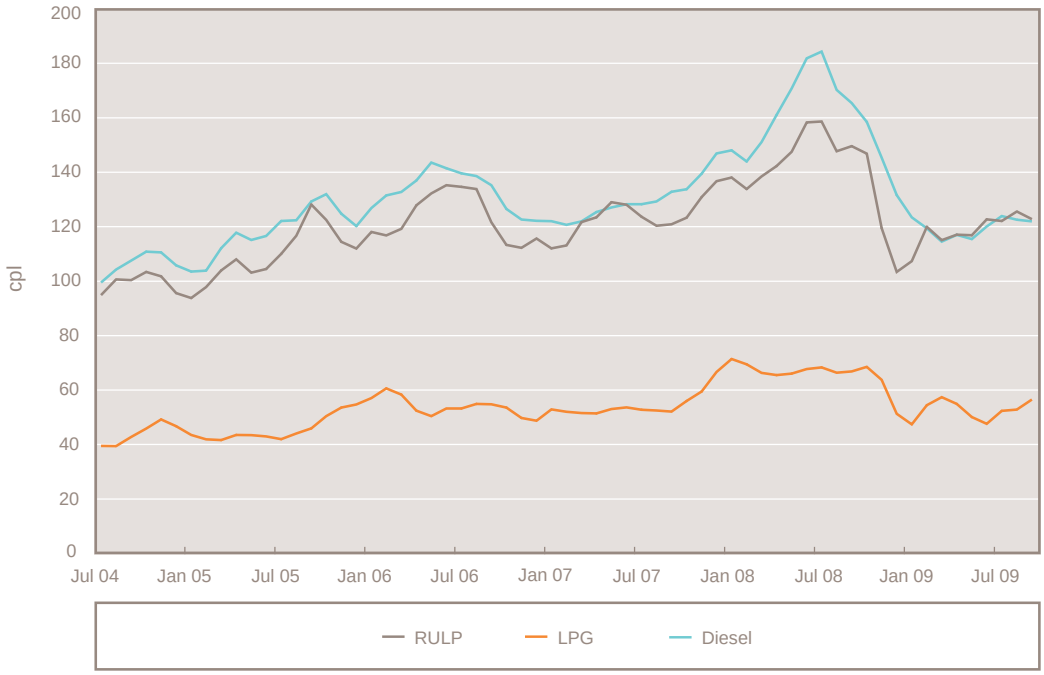


Source: ACCC and Informed Sources.

Australian petrol, diesel and automotive LPG prices have followed broadly similar trends over the past few years

Chart 14 shows the course of RULP, diesel and automotive LPG prices over the past few years. In general the three price series have followed broadly similar trends. This is to be expected as each fuel is derived from crude oil and they are somewhat substitutable as transport fuels in the longer run. Note that throughout 2007–08 diesel prices were higher than petrol prices in the face of strong demand in the Asia-Pacific. More recently diesel and petrol prices have converged.

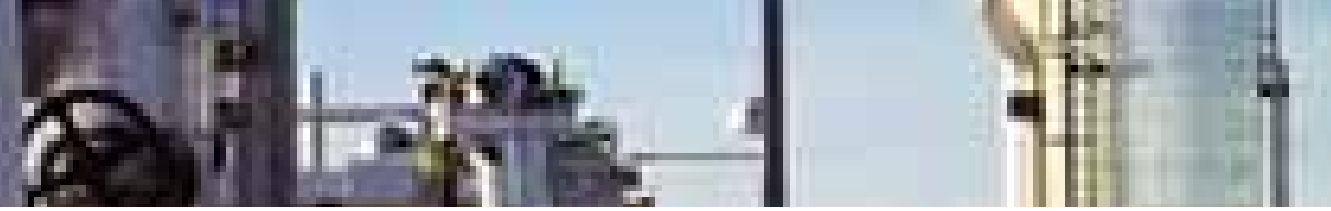
Chart 14 Average monthly retail prices of RULP, diesel and automotive LPG in the five largest cities: July 2004 to 30 September 2009



Source: ACCC calculations based on Informed Sources data.

Note: Excise (of 38.14 cpl) is applied to petrol and diesel but not to automotive LPG.

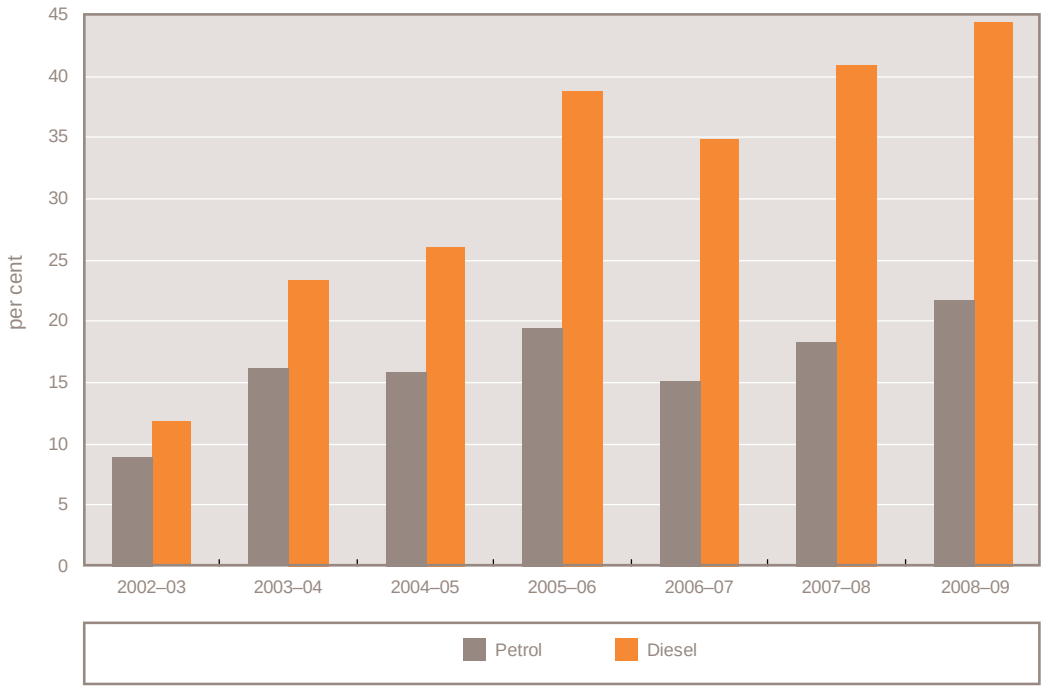
Like petrol, Australian diesel and automotive LPG prices have been low when compared to other countries in the OECD. In the case of diesel, Australian prices were the fifth-lowest in March 2009. Australian automotive LPG prices were the lowest of the comparator countries. In both cases the low prices in Australia were largely due to lower taxation.



Imports of petrol and diesel supplement local production

In Australia in 2008–09 about 20 per cent of petrol and about 40 per cent of diesel supplies were imported to supplement local refinery production. As such, imports represent the marginal source of supply. This reliance on imports explains why international prices have played a central role in determining local prices.

Chart 15 Petrol and diesel imports as a percentage of total sales in Australia: 2002–03 to 2008–09

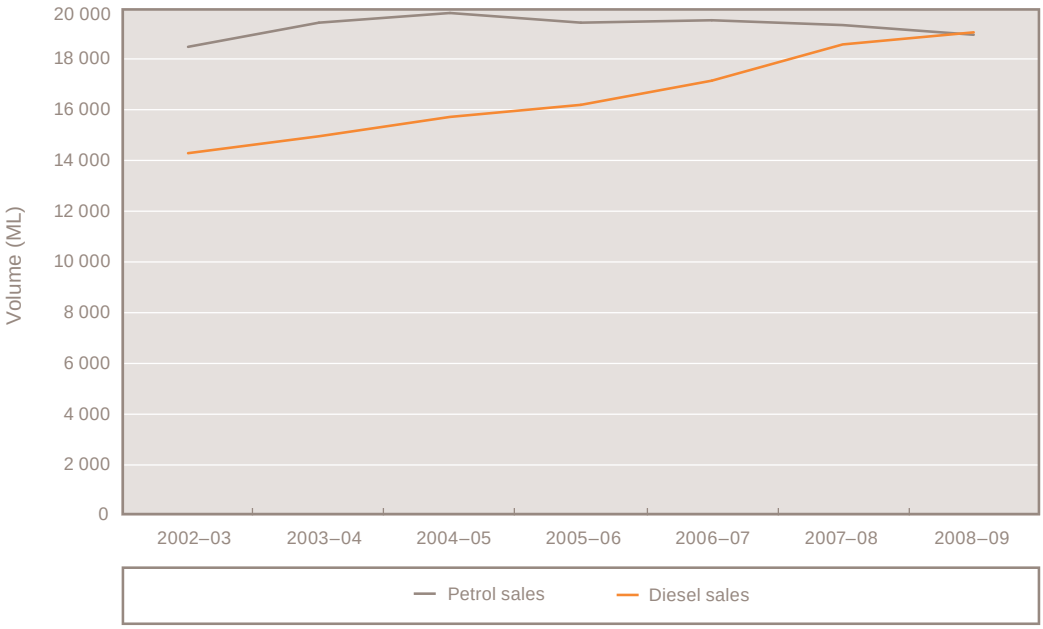


Source: *Australian Petroleum Statistics*, RET, issues 83 (June 2003), 119 (June 2006) and 155 (June 2009); and ACCC analysis based on data obtained from firms monitored through the ACCC's monitoring process.

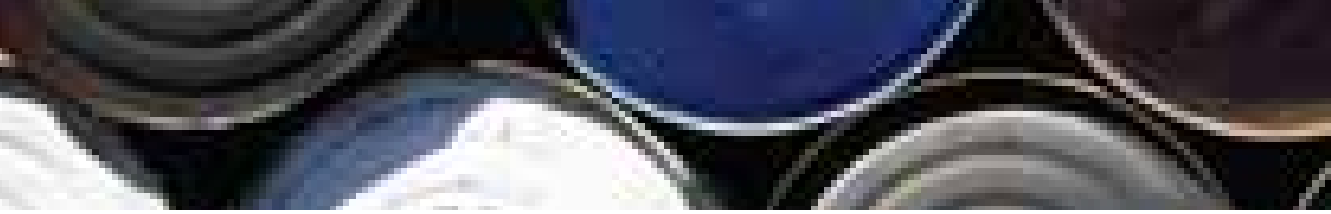
The total volume of diesel sold in Australia has recently overtaken the volume of petrol sold

Diesel volumes sold have increased significantly over the past few years. In part, this has been due to increased demand from the mining sector. With petrol volumes remaining fairly flat in recent years, diesel volumes have recently exceeded petrol volumes (see chart 16). However, a significant proportion of diesel in Australia is used for non-automotive purposes. In 2008–09 retail sales of diesel (primarily for automotive use), while growing strongly, only comprised 22.4 per cent of retail petrol, diesel and LPG sales.

Chart 16 Sales of petrol and diesel in Australia: 2002–03 to 2008–09



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



Profits

The ACCC has collected extensive financial information from the four refiner–marketers and major wholesalers and retailers. It has analysed the information for production, wholesale, and retail of petrol and other fuels. It has also compared the petrol industry's results to other industries operating in Australia and to petrol companies operating overseas.

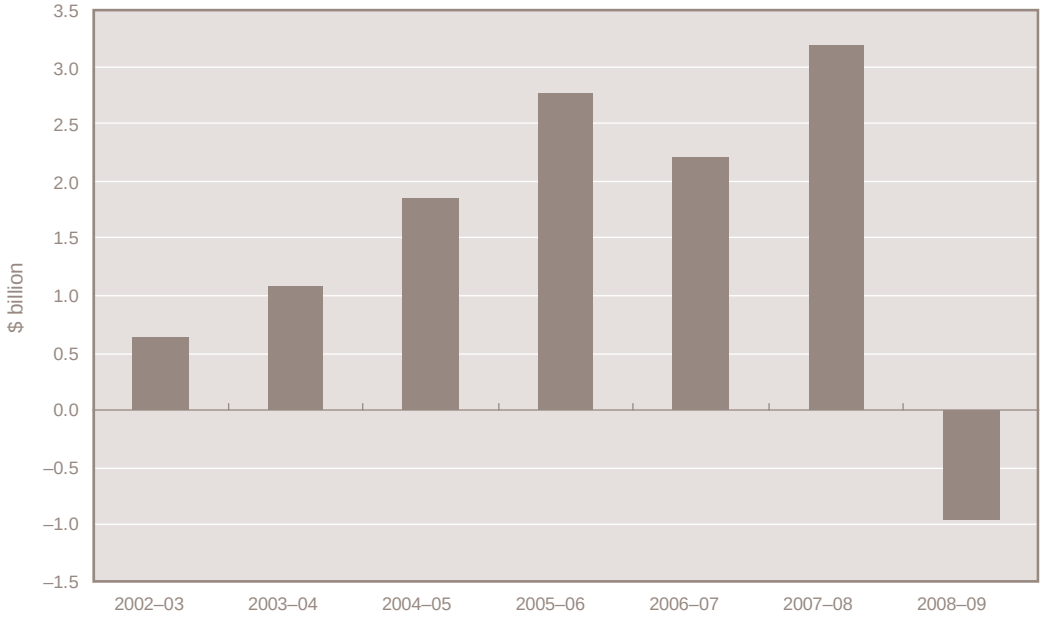
Profits have been volatile over the past seven years

Returns to shareholders over the past seven years have been mixed. Between 2002–03 and 2005–06, total profits increased year on year. Profits then declined in 2006–07 and peaked in 2007–08. In aggregate, the petrol companies made losses in 2008–09 of about $1 billion (see chart 17).

In large part, this loss was due to the valuation of inventories in the face of declining international prices. Petrol companies need to order crude oil well in advance of its refining and ultimate sale as refined petrol. If there is a movement in the international benchmarks (either up or down) while product is moving through the supply chain then the final selling price may differ from the initial purchase price. Changes in the value of the $A have also had an impact on profits. Consequently, it is important to view industry profits over a number of years so that any volatility in the valuation of inventories can average out.

Between July and December 2008 there was a rapid fall in international oil and petrol prices. This meant that the petrol companies were selling refined petrol at a discount compared to the price they paid for crude oil.

Chart 17 Aggregate petroleum industry net profits on all products: 2002–03 to 2008–09

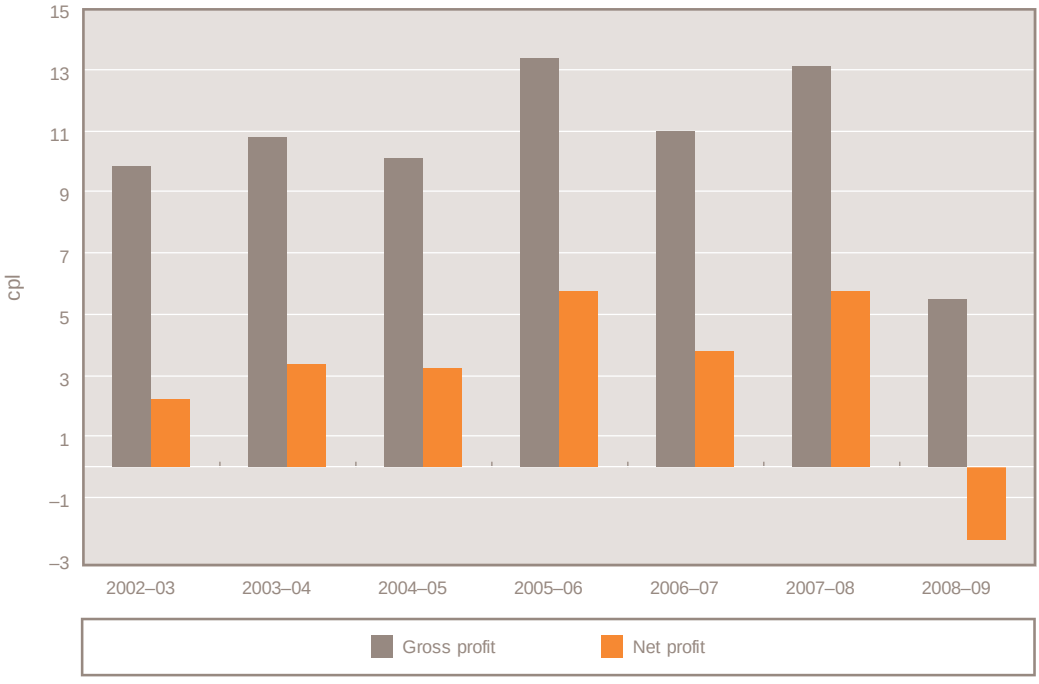


Source: ACCC analysis based on data obtained from firms monitored through the ACCC's monitoring process.

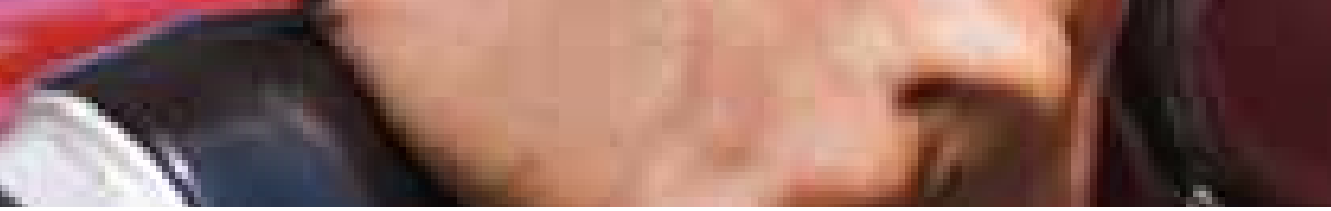
Petroleum industry profits have been a small proportion of the retail price

A small proportion of the final bowser price has been accumulated in profits by the refining, wholesale and retail sectors. The ACCC has estimated that over the past seven years the gross profit on the sale of petrol across the downstream petroleum industry has averaged about 11 cpl. Gross profit is a measure of the difference between the sale price of the product and its purchase cost. The petrol companies do not keep the entire gross profit; they need to pay a range of costs out of this profit, including wages, rent and maintenance. After subtracting these costs, the ACCC has estimated that the net profit to the petrol companies averaged 3.1 cpl over the seven years (see chart 18). In recent years, net profit on petrol for the combined refining, wholesale and retail sectors has typically been in the range of 2 to 6 cpl. The ACCC estimates that in 2008–09 the petrol companies made a net loss of about $480 million on the sale of petrol in aggregate.

Chart 18 Gross and net profit on petrol for the refining, wholesale and retail sectors: 2002–03 to 2008–09

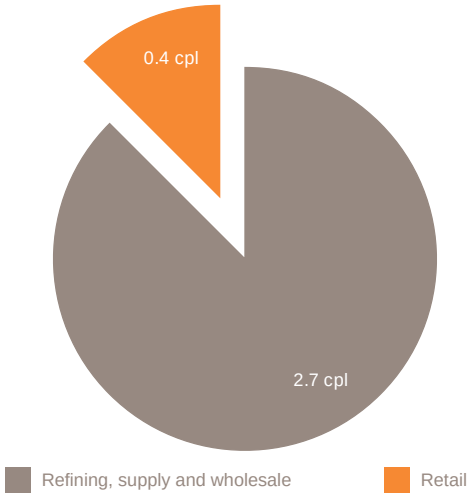


Source: ACCC analysis based on data obtained from firms monitored through the ACCC's monitoring process.



In addition, the ACCC has found that the largest proportion of total industry net profits has accrued to the refining, supply and wholesale sectors (see chart 19). The supply sector buys and sells crude oil and refined products on behalf of the refining and wholesale sectors. A small proportion of net profit has accrued to the retail sector.

Chart 19 Average share of net profit on petrol by sector: 2002–03 to 2008–09



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

Note: Revenues and costs exclude excise and GST.

Diesel profits have been higher than petrol profits

The ACCC has also estimated the gross and net profit for each litre of diesel purchased by a motorist (see chart 20). The average annual gross profit was 13 cpl (compared to 11 cpl for petrol) and the average annual net profit was 6 cpl (compared to 3.1 cpl for petrol).

The higher profits on diesel have largely been due to strong demand for diesel across the Asia-Pacific, which has led to higher prices, especially in 2007–08. Australia imports over 40 per cent of its diesel, so the local price is set with reference to the international benchmark. Australian refineries produce petrol and diesel from crude oil in relatively fixed proportions. Consequently, when diesel prices are higher than petrol prices, the local refineries receive a higher gross profit on diesel. This was particularly the case in 2007–08.

Chart 20 Gross and net profit on diesel for the refining, wholesale and retail sectors: 2002–03 to 2008–09

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

Petrol industry profits have been in line with other sectors

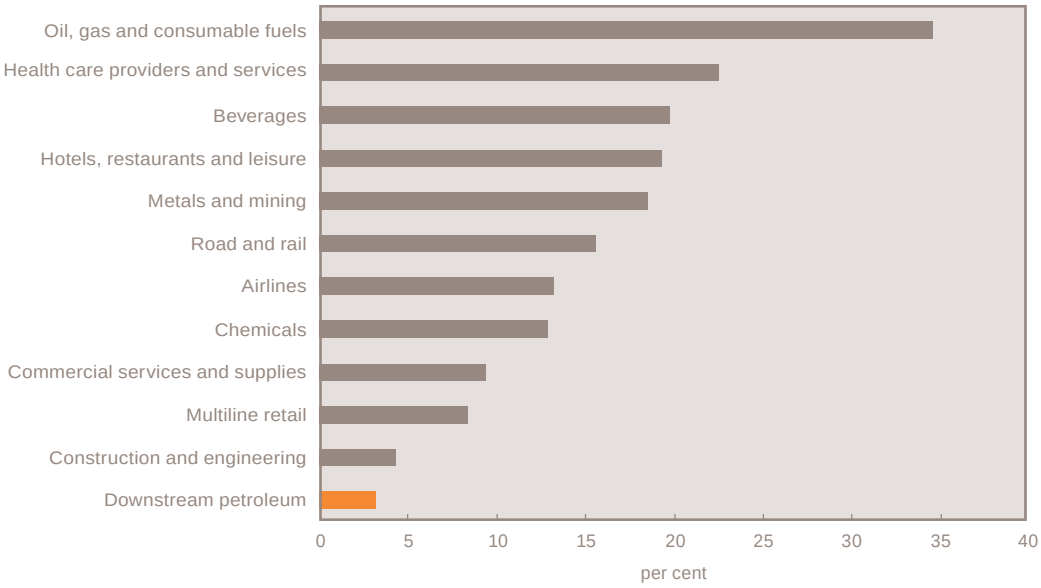
To test the overall reasonableness of aggregate profit levels, the ACCC has examined a range of profit measures and compared them to other industries.

In terms of both return on assets and return on sales, the petrol industry has ranked low compared to other industry sectors represented in the S&P/ASX 100 index (see charts 21 and 22).

The return on sales (EBIT/sales) and return on assets (EBIT/assets) of the industry averaged 3.2 per cent and 9.7 per cent respectively over the seven years. If 2008–09 is excluded (to remove the impact of the loss in that year), these averages increase to 4.0 per cent for return on sales and 12.3 per cent for return on assets.

Note that these average calculations mask divergences between the performances of individual firms.

Chart 21 Average return on sales (EBIT/sales) in the petrol industry compared to industry sectors in the S&P/ASX 100: 2002–03 to 2008–09



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

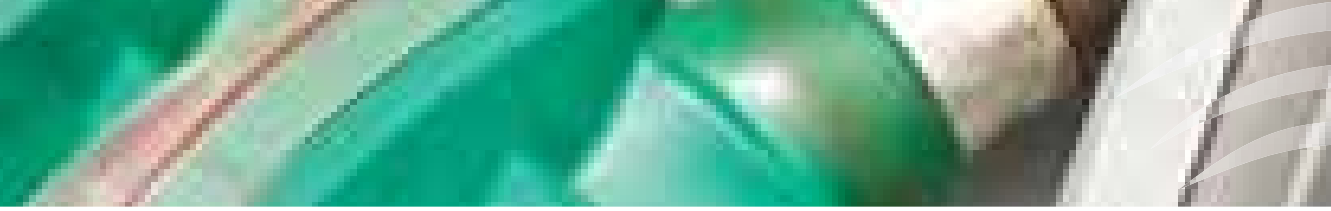
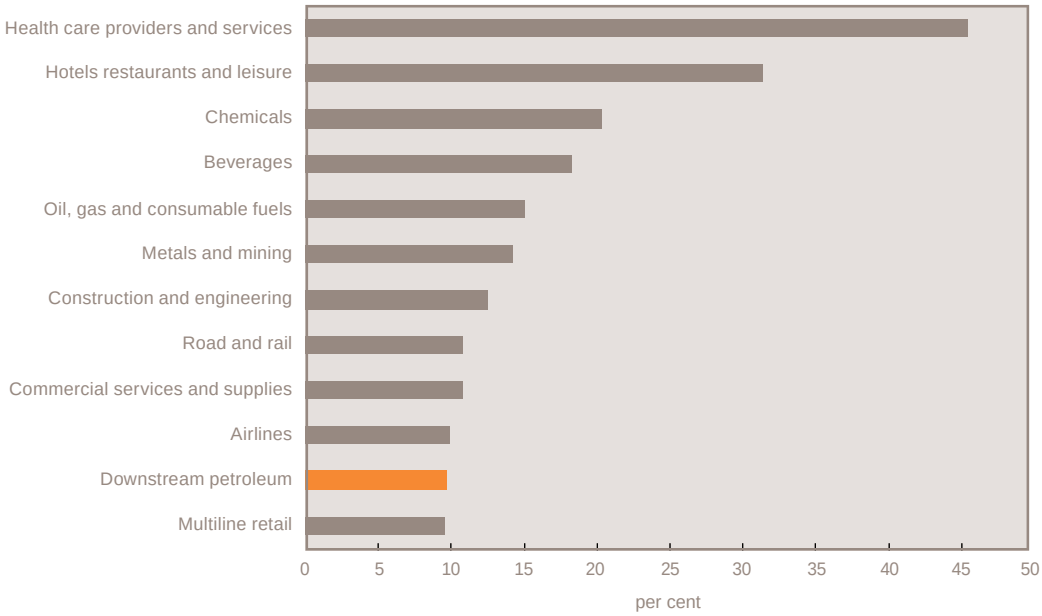


Chart 22 Average return on assets (EBIT/assets) in the petrol industry compared to industry sectors in the S&P/ASX 100: 2002–03 to 2008–09



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

Note: Oil, gas and consumables is the upstream petroleum production and exploration sector.

Costs

Out of every dollar collected by the petrol companies at the bowser, only about 3 cpl is retained as net profit. This means that the underlying costs of supply account for the remainder of the bowser price. These costs are explained further in this section.

Petrol industry costs have been dominated by refined international benchmark prices and taxes

The two largest cost components in petrol, diesel and automotive LPG prices are:

- the international benchmark price
- excise (for petrol and diesel) and GST.

Together, these two cost components account for 88 per cent of the price of petrol. That is, out of a retail price of 127 cpl, around 112 cpl is directly attributable to the cost of refined petrol and taxes (see chart 23).

For diesel these two components also account for 88 per cent of the bowser price (see chart 24). For automotive LPG they account for 78 per cent (see chart 25).

This means that margins and other costs account for about 15 cpl of the retail price of petrol, 16 cpl for diesel and 13 cpl for automotive LPG. Out of these amounts, the petrol companies need to cover a number of costs such as freight (including freight to Australia from overseas), wages, and terminal and service station operations. The ACCC has estimated that over the past seven years the total profit margin on petrol across the refining, wholesale and retail sectors has been in the order of 3.1 cpl, and in the order of 6 cpl for diesel.

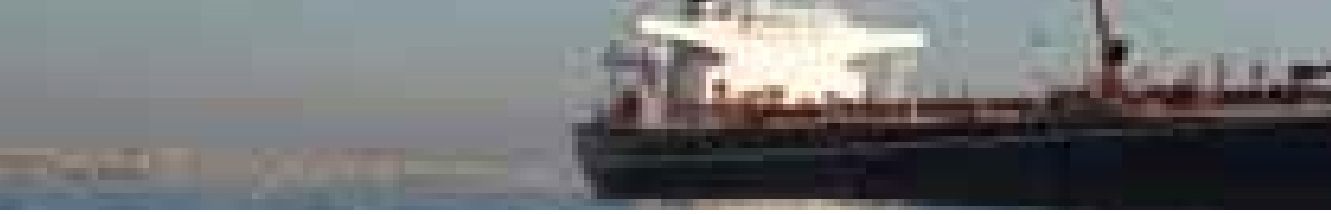
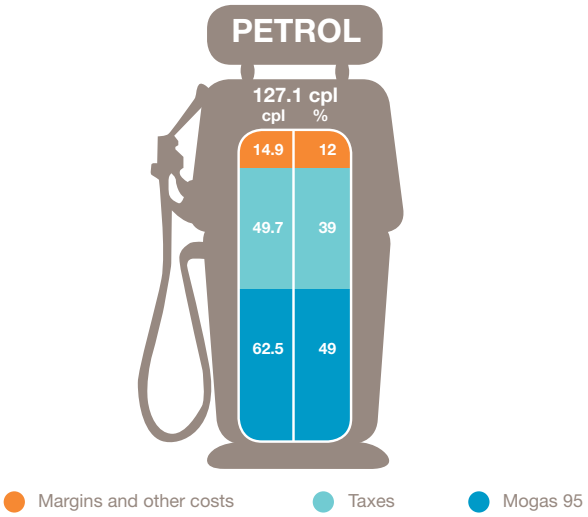
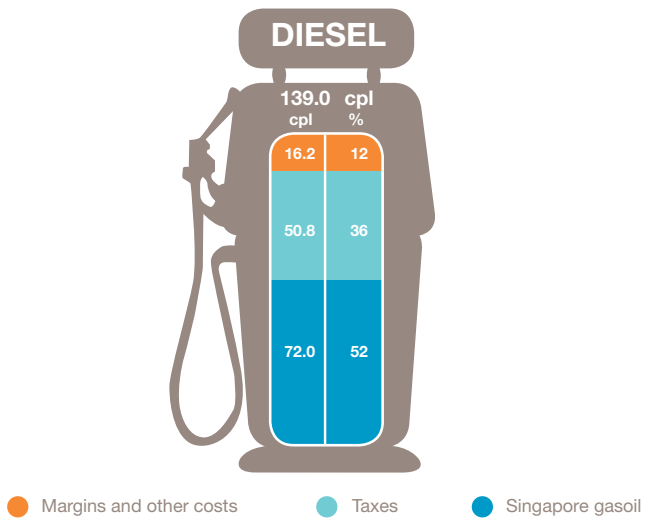


Chart 23 Components of Australian retail RULP prices in the five largest cities: 2008–09



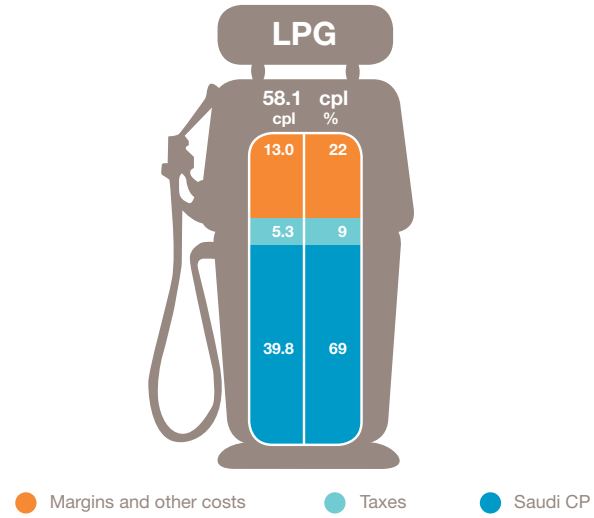
Source: ACCC calculations based on Platts, CBA and Informed Sources data.

Chart 24 Components of Australian retail diesel prices in the five largest cities: 2008–09



Source: ACCC calculations based on Platts, CBA and Informed Sources data.

Chart 25 Components of Australian retail automotive LPG prices in the five largest cities: 2008–09



Source: ACCC calculations based on LPG Australia, RBA and Informed Sources data.

There has been a close relationship between the international price of refined petrol and the cost of crude oil

The most important determinant of the international price of refined petrol is the cost of crude oil. In general, crude oil accounts for in excess of 90 per cent of the cost of producing refined petrol. Chart 26 shows that the price of refined petrol in Singapore has closely followed the price of Tapis crude oil. Tapis is a Malaysian crude oil that is used as a benchmark across the Asia-Pacific.

Between July 2006 and July 2008, strong global demand for petroleum products caused a sharp rise in the cost of crude oil. Australian retail petrol prices followed this upward trend. With the onset of the global financial crisis in July 2008, world demand for petroleum products declined sharply. Crude oil costs followed and so did Australian petrol prices. More recently, as the global financial crisis has eased, crude oil costs have again started to trend upward.

There is a clear chain of causality from the cost of international crude oil to the price of refined petrol in Singapore and then to retail prices in Australia.

Chart 26 Movements in refined petrol and crude oil benchmark prices: 1 July 2007 to 30 September 2009

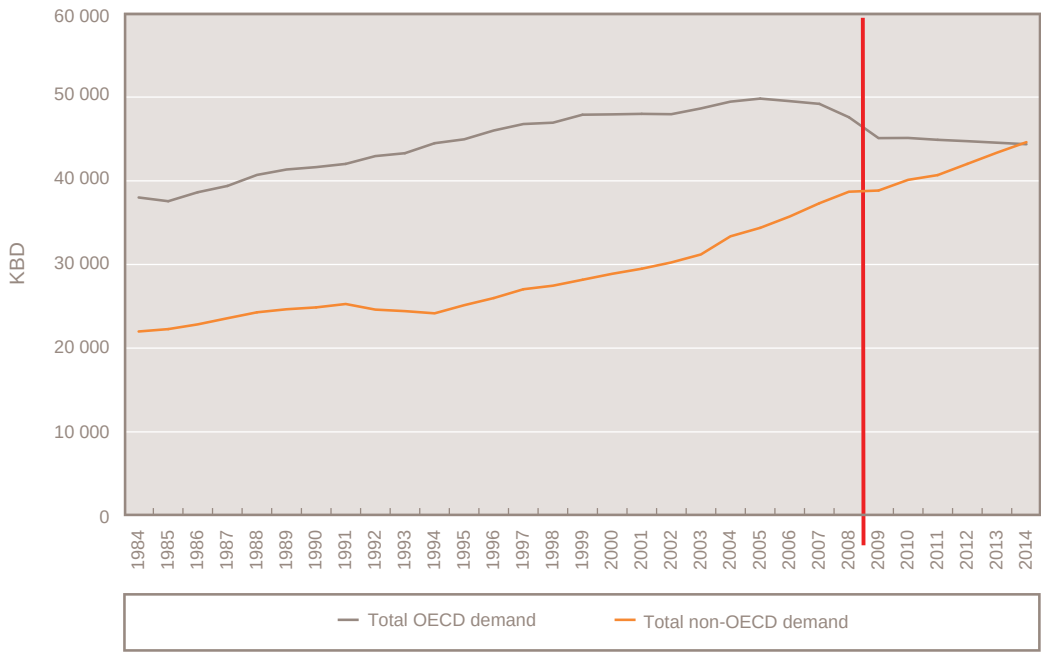
Source: ACCC calculations based on Platts and CBA data.

Global demand for oil is expected to increase in coming years

Since 1984, world demand for oil based products has grown by 1.4 per cent per annum, on average. Total demand in OECD countries has declined in recent years, especially with the onset of the global financial crisis. By contrast, demand in non-OECD countries has been growing strongly (averaging 2.4 per cent per annum since 1984). Together, China and India account for 30 per cent of non-OECD demand. Since 2000, annual growth in demand in China and India has averaged 6.4 per cent and 3.7 per cent respectively.

The International Energy Agency (IEA) has projected that at some point in the next few years, demand by non-OECD countries is likely to outstrip demand in OECD countries (see chart 27). If demand for oil in non-OECD countries continues to grow as expected, this could place pressure on the cost of crude oil and international petrol prices in coming years.

Chart 27 Demand for oil based products, OECD and non-OECD: 1984 to 2014



Source: ACCC using data sourced from IEA. Data copyright OECD/IEA 2009.

Note: Figures for 2009 to 2014 are IEA forecasts.

Conclusion—prices, costs and profits

At a general level, petrol prices have been in line with the underlying costs of supply and international benchmarks:

- movements in petrol prices have generally been in line with movements in the Singapore Mogas 95 price on average, but the price cycle has caused divergences of up to several cents per litre depending on the phase of the cycle
- retail petrol prices in Australia have been low compared with other countries in the OECD
- on average, profits have been at the lower end compared with other industry sectors operating in Australia and with petroleum companies operating overseas.

The most significant cost element facing the industry has been the cost of refined petrol, which is dominated by the cost of crude oil. It is therefore the owners of the crude oil that have received the largest share of revenue from the petrol sold at the bowser. Out of a retail price of 127 cpl, refined petrol accounts for around 62 cpl, taxes account for around 50 cpl and the remaining 15 cpl goes to the local petrol companies to cover the cost of wholesaling and retailing of the petrol, plus a profit margin.

Role of the ACCC

The community relies on competition to keep prices and profits in check, just as it does for most other products. Competition is required to deliver the best outcomes for consumers.

The ACCC has two broad roles in relation to the petrol industry.

1. The ACCC monitors the prices, costs and profits relating to the supply of unleaded petroleum products in the petroleum industry.

In December 2007, the Minister for Competition Policy and Consumer Affairs directed the ACCC to undertake monitoring for three years to the end of 2010. In December each year, the ACCC provides the minister with a report on its monitoring activities. This is the second report.

The ACCC collects fuel prices in each capital city and 150 regional centres and country towns. Each day the ACCC reviews these prices and compares them to the international benchmarks. The ACCC also obtains cost and profit information from the petrol companies each year. The ACCC uses this information to compare Australian prices, costs and profits against international benchmarks. The minister has also asked the ACCC to informally monitor the prices of diesel and liquefied petroleum gas (LPG). If the ACCC becomes aware that competition is not delivering satisfactory outcomes, it can alert the government and community to the problem.

2. The ACCC enforces competition and consumer protection laws across Australia.

These laws apply to all industry sectors, not just the fuel industry. When sufficient evidence exists that a business has misled consumers or behaved in an anti-competitive way to their detriment, the ACCC can take legal action under the Act. The ACCC has taken action against businesses to protect consumers where there has been evidence of unlawful conduct in the Australian fuel industry.

This report outlines the ACCC's activities and findings in relation to its monitoring role as well as its enforcement of the Act.

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

Compliance with the Trade Practices Act

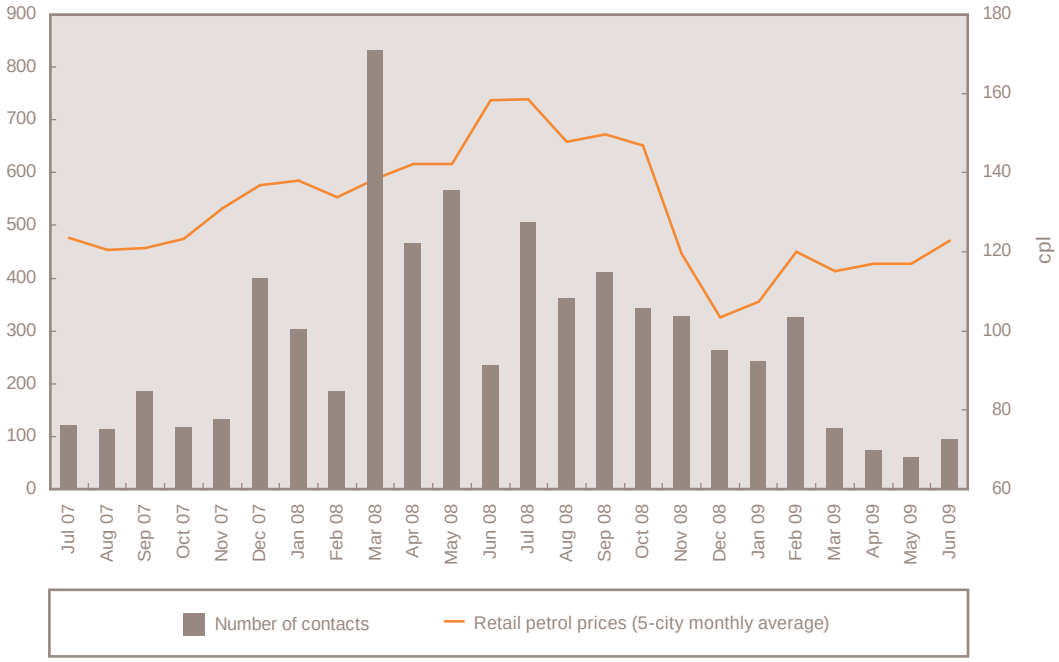
The purpose of the Act is to enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection. In broad terms the Act covers unfair market practices, industry codes, mergers and acquisitions, product safety, product labelling, price monitoring, and the regulation of telecommunications, gas and electricity networks and airports.

The ACCC has received a large number of complaints and inquiries about the petrol industry

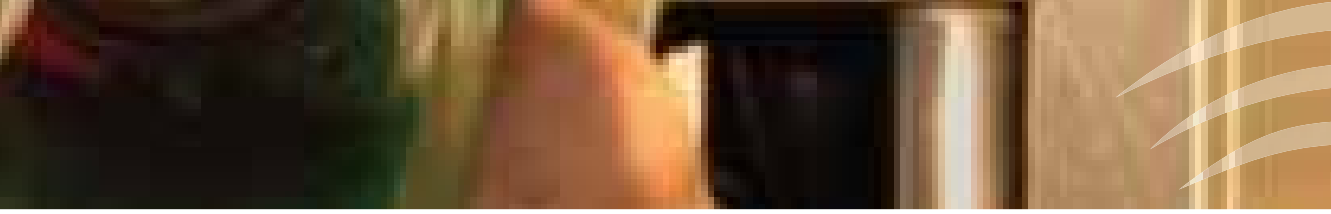
In 2008–09, the ACCC received about 3000 complaints and inquiries regarding the fuel industry. These contacts came from every state and territory but were broadly in proportion to the population of each state. The number of complaints increased sharply when petrol prices increased sharply in 2008, and has declined since (see chart 28).

The vast majority (66 per cent) of these complaints and inquiries were in relation to high prices. The ACCC has reviewed the complaints about high prices to identify common issues and has examined these issues in the context of its monitoring work.

Chart 28 Contacts about fuel issues received by the ACCC by month and average petrol prices in the five largest cities: 2007–08 and 2008–09



Source: ACCC and Informed Sources.



ACCC review of conduct that may breach the Trade Practices Act

The ACCC takes potential breaches of the Act seriously. Over the course of 2008–09 it has undertaken a number of investigations of conduct to determine whether the conduct might breach the Act.

Misleading conduct and false representations

Most of the complaints the ACCC received in 2008–09 about conduct that could potentially breach the Act related to misleading and deceptive conduct and false or misleading representations. Under the Act, conduct may be in breach where it is likely to or has the effect of misleading consumers. Such conduct may include lying to consumers, leading them to a wrong conclusion, creating a false impression or making false or inaccurate claims.

The main concerns raised by consumers included pricing practices (particularly price boards), labelling on fuel pumps, advertising promotions (such as discount schemes), fuel quality claims and inaccurate fuel measurements. Over 2008–09 the ACCC undertook further assessments in relation to 99 matters. The ACCC was able to achieve compliance outcomes in a number of the matters.

Review of the 40 cent discount on fuel

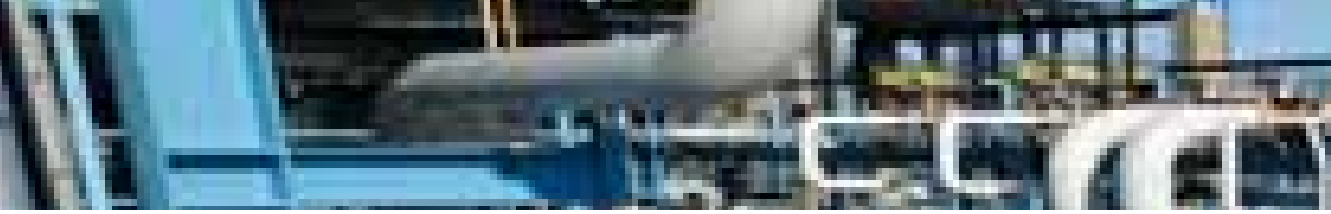
The ACCC has long acknowledged the consumer benefits arising from fuel shopper docket arrangements. As far back as 2004, the ACCC publicly noted their capacity to deliver cheaper petrol and encourage competition.

However, there is a balance to be found between providing consumers with discounts on the one hand and, on the other, offering significant price cuts for sustained periods or repeated offers which might have a deeper impact on competition in the long term.

In July 2009 the ACCC reviewed the special shopper docket promotions offered by Coles and Woolworths.

After considering the Coles and Woolworths discount schemes offered in July, the ACCC formed the view that as these offers were one-off promotions, and given their short-term nature, the promotions did not contravene the Act. In particular, the short term of the promotion meant for most consumers that heavy fuel discounts were only available on one tank of fuel.

In October 2009, Coles advised the ACCC that it proposed a new fuel discount promotion. Coles Express proposed to offer discounts of 40 cpl to customers whose purchases amounted to more than $300 at a Coles supermarket between 16 and 29 October. Discounts of 25 cpl and 10 cpl were to apply to purchases above $200 and $100 respectively.



While there were some similarities between this offer and the three-day promotion in July 2009, the repetition of the promotion, combined with the longer period available to shoppers to acquire multiple fuel discount vouchers, meant there were also significant differences.

The ACCC formed the view it would wish to consider this promotion further and communicated this to senior Coles executives. This resulted in a decision by Coles to withdraw the promotion.

Business-to-business dealings

The ACCC also received a number of complaints alleging conduct such as price fixing, predatory pricing, certain types of exclusive dealing conduct and general anti-competitive agreements that substantially lessen competition. Over 2008–09 the ACCC identified 17 matters for further assessment, which led to four investigations. In each matter, the allegations were not substantiated.

The ACCC also examined three public merger matters in 2009. In December 2009 the ACCC announced its intention to oppose Caltex's proposed acquisition of the retail assets of Mobil.

Review of the buy–sell arrangements

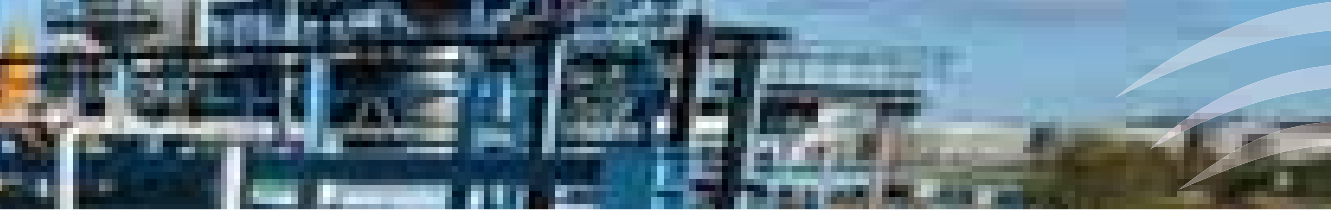
The refiner–marketers trade large volumes of petrol between themselves to minimise the need to transport fuel from refineries in one state to markets in other states. These buy and sell transactions are known as 'buy–sell' arrangements.

In the 2007 petrol inquiry, the ACCC expressed concern that the buy–sell arrangements between the refiner–marketers might be harming competition. Earlier this year the ACCC concluded a detailed review of the arrangements and their potential effect on competition.

The ACCC collected extensive information on the buy–sell arrangements and the wholesale transactions undertaken by the refiner–marketers. The ACCC used this material to review a range of possible theories of competitive harm.

Based on the material before it, the ACCC formed the view that there was insufficient evidence to support a conclusion that the arrangements contravened the Act.

However, markets are dynamic and there remains a risk that buy–sell arrangements may lessen competition or facilitate collusion in the future. If the ACCC receives complaints or identifies information through its existing price monitoring functions which indicates that any collusion or anti-competitive conduct has occurred, it will not hesitate to investigate the conduct and take appropriate action.



Improving business practices

Throughout the year, the ACCC received complaints about some practices which were causing concern for consumers. In October 2009 the ACCC wrote to the major petrol companies and industry associations to request that they review their business practices and take corrective action where necessary. The issues the ACCC raised in its letter included:

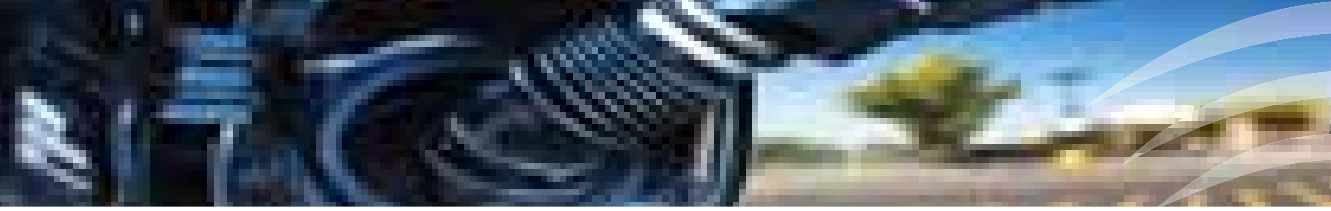
- discrepancies between advertised board prices and prices displayed at the fuel pump
- labelling of fuel containing ethanol
- fuel quality
- advertising and labelling
- restrictive trade practices
- businesses' obligations not to engage in collusive conduct such as price fixing.

Conclusion—level of compliance with the Act

Over 2008–09 the ACCC received in excess of 3000 complaints about the petrol industry. However, the vast majority of these complaints related to high prices. The ACCC undertook a number of investigations into conduct that may breach the Act, but to date none of these investigations have produced evidence of a serious breach.

While the ACCC identified a number of business practices that could be improved for the benefit of consumers, overall, based on the material currently before the ACCC, the petrol industry appears to have generally met its obligations under the Act.

The ACCC will continue to monitor the operation of the industry and will take action, including through the courts, if necessary.



ACCC contacts

ACCC Infocentre: business and consumer inquiries 1300 302 502

Website: www.accc.gov.au/fuel

Callers who are deaf or have a hearing or speech impairment can contact the ACCC through the National Relay Service www.relayservice.com.au

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