



Australian
Competition &
Consumer
Commission

Monitoring of the Australian petroleum industry

Report of the ACCC into
the prices, costs and profits
of unleaded petrol in
Australia

DECEMBER 2008





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Shortened forms

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AIP	Australian Institute of Petroleum
ASX	Australian Stock Exchange
BP	BP Australia Pty Limited
Caltex	Caltex Australia Limited
COGS	cost of goods sold
Coles Express	Coles Express Pty Ltd
Coogee Chemicals	Coogee Chemicals Pty Ltd
cpl	cents per litre
diesel	automotive distillate
EBIT	earnings before interest and tax
EBP	ethanol-blended petroleum
FOB	free on board
FUELtrac	Fueltrac Pty Ltd
GST	goods and services tax
Gull	Gull Petroleum
Informed Sources	Informed Sources (Australia) Pty Ltd
IPP	import parity price
JV	joint venture
KBD	thousand barrels per day
LHS	left-hand side
Liberty	Liberty Oil Pty Ltd
LPG	liquefied petroleum gas
Marstel	Marstel Terminals Pty Ltd
ML	megalitres
Mobil	Mobil Oil Australia Pty Ltd
MOPS	mean of Platts Singapore
MTBE	methyl tertiary-butyl ether
Neumann	Neumann Petroleum Terminals Pty Ltd
OECD	Organisation for Economic Cooperation and Development

OPM	operating profit margin
PB	per barrel
Platts	a division of the McGraw-Hill Companies Incorporated
RBA	Reserve Bank of Australia
RET	Department of Resources, Energy and Tourism
RHS	right-hand side
Rio Tinto	Rio Tinto Limited
RON	research octane number
SEP	Strasburger Enterprises (Properties) Pty Ltd
Shell	Shell Company of Australia Ltd
SMP	Sydney Metropolitan Pipeline Pty Ltd
TGP	terminal gate price
the Act	<i>Trade Practices Act 1974</i>
Trafigura	Trafigura Services Australia Pty Ltd
United	United Petroleum Pty Ltd
Vopak	Vopak Terminals Australia Pty Ltd
Woolworths	Woolworths Limited
7-Eleven	7-Eleven Stores Pty Ltd

Glossary

barrel	a barrel is an imperial measure used by the oil industry: one barrel is equivalent to approximately 158.987 litres
benchmark pricing	a price regarded as a standard for comparisons; the different types of benchmarks may include the Platts benchmark (MOPS) and the IPP benchmark
buy–sell arrangements	bilateral arrangements between domestic refineries for the supply of petrol to a refiner in a region where they do not own a refinery
city–country differential	the difference between the average country retail price of petrol and the average city retail price of petrol
commission agent	a retail arrangement whereby the site operator receives a commission for selling the supplier’s product through a site owned or leased by the supplier
crude oil	natural or raw material used as feedstock to produce petrol. It ranges from light to heavy crude
distributor	a business which delivers petroleum products to retailers and end users
downstream	the refining, distribution and marketing of natural gas, crude oil and products derived from crude oil including petrol
earnings before interest and tax (EBIT)	measure of a company’s profitability that excludes interest and tax expenses
exclusive dealing	a type of conduct prohibited in certain circumstances by s. 47 of the <i>Trade Practices Act 1974</i> (the Act) broadly involving one trader imposing restrictions on another’s freedom to choose with whom or in what or where it deals
E10	unleaded petrol that includes 10 per cent ethanol
fixed costs	costs that do not vary with output
free on board (FOB)	the purchaser does not incur a charge for delivery on board or into a carrier at a specified point or location
fuels	all types of petrol, diesel and automotive LPG
fuel quality premium	a premium added to the pricing benchmark to reflect the higher quality of Australian grade fuel relative to the Singapore benchmark price
gantry	a frame structure used to distribute fuel products from a refinery or terminal to truck or train tankers
gasoline crack	the difference between the price of refined petrol and the price of crude oil, referred to as the ‘refining margin’ in previous ACCC publications

import parity pricing	the setting of a price for domestically refined petrol in the wholesale market comparable to the cost of importing fuel into a given location in Australia
Informed Sources	a company that collects and provides information on retail petrol prices in Australia
large independent chains	companies that are not refiner–marketers or supermarket chains that import, wholesale and/or retail fuel in Australia; these include Gull, United, Neumann, Liberty and 7-Eleven
five largest metropolitan cities	these are Sydney, Melbourne, Brisbane, Adelaide and Perth
marginal cost	an additional cost from producing one extra unit of output
Mean of Platts Singapore (MOPS)	the benchmark price used in import parity pricing derived from Platt’s data
Mogas	refined unleaded petrol from Singapore; it is used in oil markets as the benchmark for unleaded petrol in the Asia–Pacific region
nameplate capacity	the potential output if the refinery is running at optimum utilisation
notification	a process established by the Act under which a person who engages in exclusive dealing conduct may obtain legal protection from the application of the Act for that conduct
Oilcode	a prescribed mandatory industry code of conduct under s. 51AD of the Act; it regulates the conduct of suppliers, distributors and retailers in the downstream petroleum industry
operating profit margin (OPM)	is measured by the ratio of operating profit divided by revenue
other independently owned retailers	retailers that own single or multiple sites and sell petrol under the brand name of one of the refiner–marketers or under their own brand name
petrol	covers all grades of unleaded petrol (i.e. 91, 95 and 98 RON) and may include ethanol-blended petrol
2007 ACCC petrol inquiry	the ACCC’s 2007 public inquiry into the price of unleaded petrol
2007 ACCC petrol inquiry report	<i>Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol: December 2007</i>
Platts	a division of the McGraw-Hill companies that provides information on oil and energy products around the world
price floor	a floor below which prices are not allowed to fall
price support	support provided by a supplier to a retailer to cover for loss of revenue during periods of price discounting to enable retailers to maintain volume sales

refiner margin	the difference between the prices of the products produced at the refinery and the value of the crude oil used to produce the products
refiner–marketer	a company that refines, imports, wholesales and markets fuel under its brand name in Australia; these are BP, Caltex, Mobil and Shell
refinery exchange	arrangements between refiner–marketers before July 2002 for the swap of a volume of product in one location for an equivalent volume in another location where they did not operate a refinery
retail margin	the difference between the cost to acquire a product from a wholesaler and the retail selling price of that product
RON	research octane number, a measure of the efficiency of petrol at resisting engine-knocking; in Australia, different grades of petrol include 91 RON (regular), 95 RON and 98 RON (premium grades)
shopper docket	generally refers to a discount offer on fuel for consumers that have spent a minimum amount in one purchase from a nominated retailer
smaller capital cities	these are Darwin, Canberra and Hobart
Tapis	a light, sweet crude oil from Malaysia; it is used in oil markets as the benchmark for crude oil in the Asia–Pacific region
terminal	a large storage facility that receives fuel either from a refinery or as imports via shipping ports. Import terminals are commonly located on the seaboard and have port access for delivery by ships. Fuel is distributed by pipeline, truck, train or ship from the terminal to other terminals, retailers or end users
terminal gate price (TGP)	a price for a spot purchase of petrol from a terminal. It is the price a purchaser expects to pay, usually in cash, when they arrive at a wholesaler’s terminal wanting to purchase a tanker load of 30 000 litres of petrol
third line forcing	one form of exclusive dealing conduct prohibited by s. 47 of the Act. It involves the supply of goods or services on the condition that the purchaser acquires goods or services from a particular third party, or a refusal to supply because the purchaser will not agree to that condition
throughput	volume received and distributed by a terminal in a given period
unleaded petrol	regular unleaded petrol
vertical integration	the undertaking by a single company of successive stages in the process of production and supply of a particular good
wholesale margin	the difference between the cost to acquire a product from a supplier of fuel and the wholesale selling price of that product
Worldscale	a system of benchmarks establishing payment of a freight rate for a given oil tanker’s cargo

Summary

The Assistant Treasurer and Minister for Competition and Consumer Affairs, the Hon. Chris Bowen MP directed the ACCC to monitor the prices, costs and profits of unleaded petrol products for a period of three years and report to him by 17 December each year.

The information presented in this report largely confirms the key conclusions arising from the ACCC's petrol inquiry in 2007¹—that is:

- Movements in the price of petrol in Australia are overwhelmingly determined by the international price of refined petrol.
- The industry is concentrated at the refining and wholesale levels.
- There is extensive trading in petrol at the wholesale level between the refiner–marketers.
- There are impediments to the large-scale importing of petrol by an independent.
- There is active price competition at the retail level.

In addition to these issues, the ACCC has also examined the costs, revenue and profits of the petrol industry as part of this monitoring exercise. The ACCC has found that the overall profitability of the industry has not increased over the past year despite the substantial increases in the retail price of petrol experienced by motorists in the year to July. Further, the level of profitability of the petrol industry does not appear to be particularly high in comparison to other industries.

Consistent with the ACCC's previous conclusions, the material in this report indicates that Australian petrol prices have been primarily determined by the international price of petrol, which in turn has been primarily determined by the international price of crude oil.

These issues are discussed further below.

1 Petrol prices are dictated by international factors

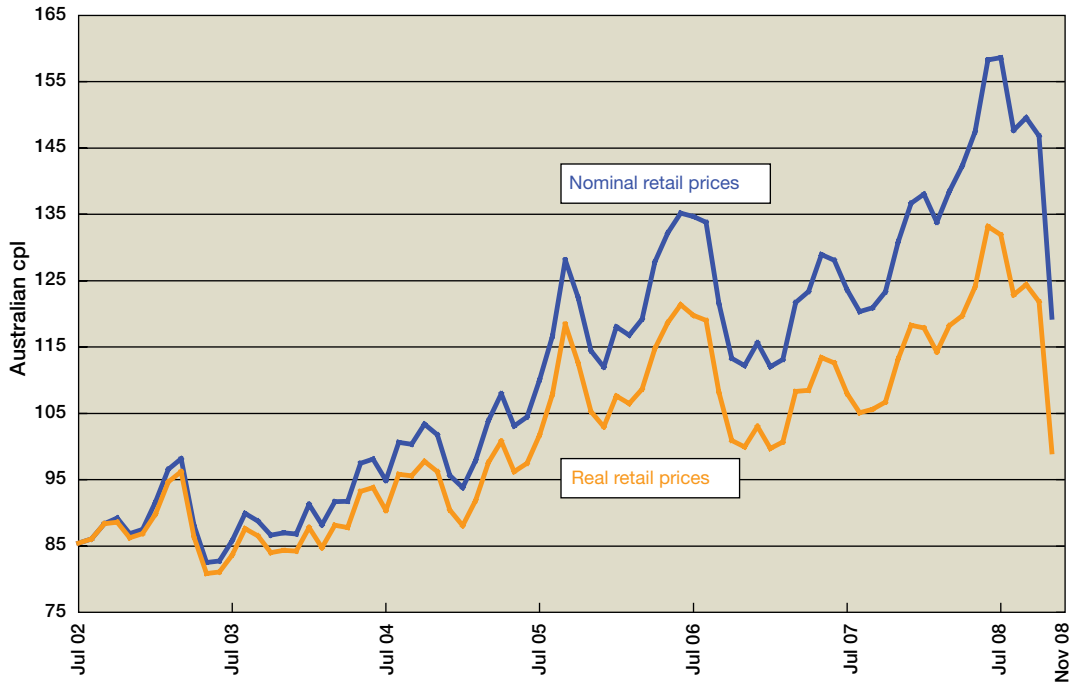
The price of petrol has been a high-profile and contentious issue in the community for many years. This was particularly the case in the past year as the daily rolling average price of petrol increased substantially reaching a high of about 163 cents per litre in the five largest metropolitan cities in July 2008. Subsequently they have fallen substantially (by about 58 cpl, or about 36 per cent) to about 105 cpl on 10 December 2008.

The ACCC's analysis reveals a long-term increase in petrol prices at the bowser since 2002 (see chart 1). In nominal terms, average monthly retail prices in the five largest metropolitan cities in July 2008 were 86 per cent higher than prices in July 2002. When adjusted for inflation, motorists in these cities are paying about 16 per cent more for petrol in November 2008 than they did in July 2002.²

1 ACCC, *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol*, December 2007.

2 Real retail prices are deflated by the ABS All Groups CPI. The RBA estimate is used for the CPI December quarter 2008. The real base is September quarter 2002.

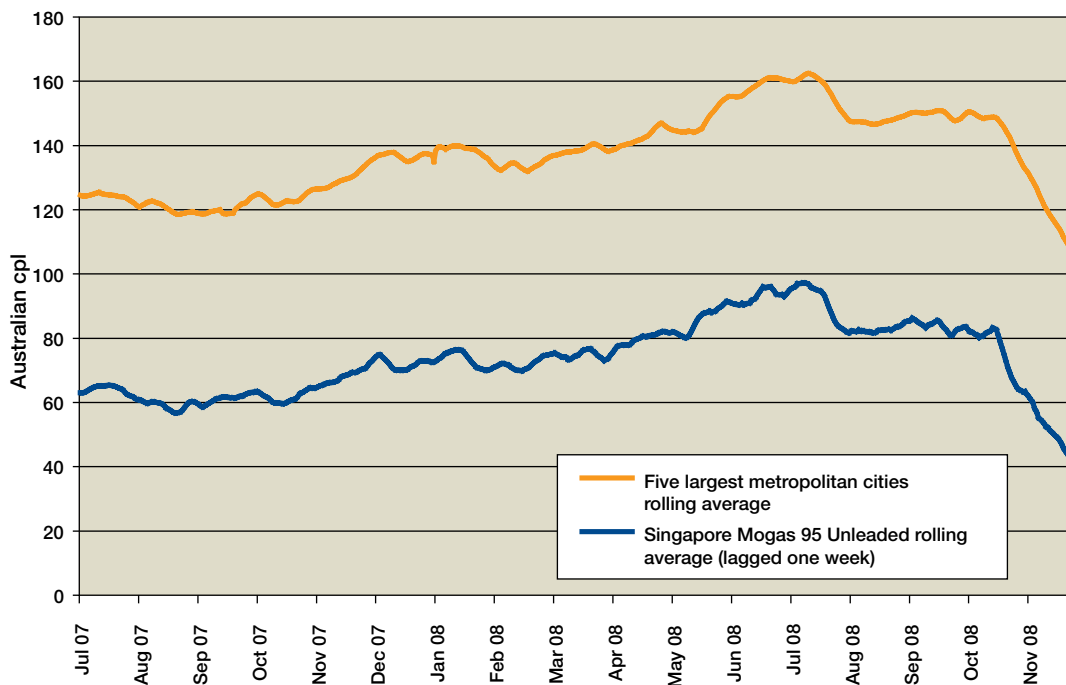
Chart 1 Average monthly unleaded petrol prices in the five largest metropolitan cities: July 2002 to November 2008



Source: ACCC, Informed Sources, Australian Bureau of Statistics (ABS) and Reserve Bank of Australia (RBA) data.

In the 2007 petrol inquiry, the ACCC found that retail petrol prices in Australia rarely range far from international benchmark prices. This remains the case. Over the past year the retail price of petrol in Australia has generally moved in line with the price of refined petrol in Singapore (see chart 2). Singapore refined petrol prices are the relevant Australian benchmark prices because Singapore is the closest major refining and marketing centre to Australia and is the most common source of imported petrol into Australia. Singapore Mogas 95 Unleaded has been used as the relevant benchmark in Australia for many years.

Chart 2 Seven-day rolling average retail unleaded petrol prices across the five largest metropolitan cities compared to Singapore benchmark prices (Australian cents per litre) 1 July 2007 to 30 November 2008

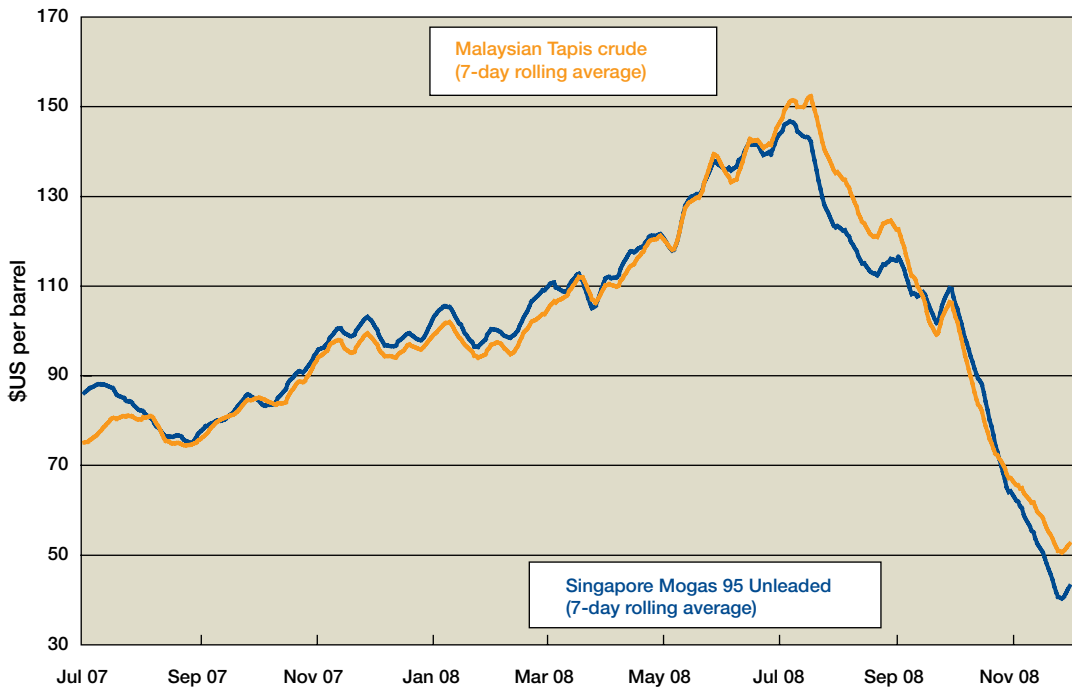


Source: ACCC, Informed Sources, Platts and Commonwealth Bank of Australia (CBA).

Note: The gap between domestic retail petrol prices and the Singapore benchmark is primarily because of excise, GST, freight costs, fuel quality premium and other adjustments and charges, and wholesale and retail margins.

In turn, the price of refined petrol in Singapore is primarily determined by the price of crude oil. The relevant Australian benchmark is Tapis crude oil, which comes from Malaysia. Over the past year there has been a fairly close relationship between the price of refined petrol in Singapore and Tapis crude oil (see chart 3).

Chart 3 Movements in Singapore Mogas 95 Unleaded and Malaysian Tapis crude oil prices, 1 July 2007 to 30 November 2008



Source: ACCC and Platts.

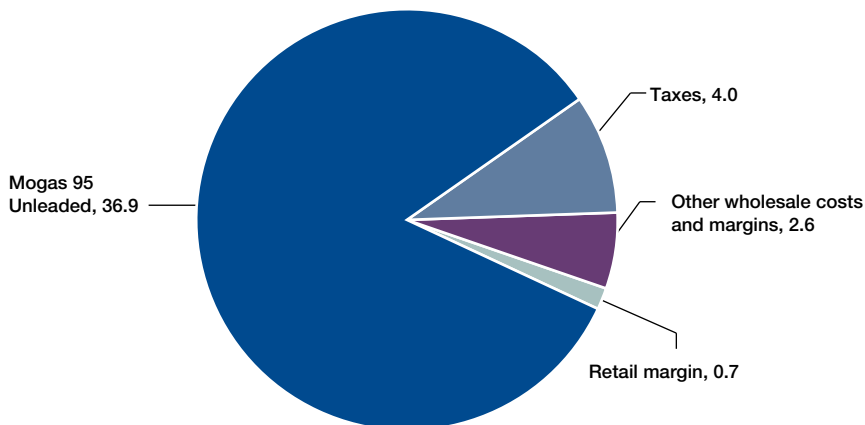
Note: Negative refining margins can arise from time to time due to imbalances in supply and demand for particular products.

Drawing these threads together, it is clear that petrol price movements in Australia over the past year have largely been determined by Singapore benchmark prices.

Between 2003–04 and 2007–08, average annual retail unleaded petrol prices in the five largest metropolitan cities increased by 44.2 cpl. Of this increase 36.9 cpl (or 83.4 per cent) was due to the increase in the Singapore refined petrol benchmark price (see chart 4).³

³ The increase in taxes was because of the GST, as the level of excise remained constant over this period.

Chart 4 Contributions to the increase in unleaded petrol prices in the five largest metropolitan cities between 2003–04 and 2007–08, cents per litre



Source: ACCC, Informed Sources, Platts, CBA and companies data.

The ACCC has found that the industry experienced significant increases in costs and revenues between 2006–07 and 2007–08. These large increases were driven by the cost of crude oil and its flow-through to prices within the industry.

2 Industry concentration at the refining and wholesale level

It remains the case that the Australian petrol industry is highly concentrated at the refining and wholesale levels. Four companies operate in the Australian refining sector. There are seven refineries in total:

- Caltex operates the Kurnell refinery in New South Wales and the Lytton refinery in Queensland
- Shell operates the Clyde refinery in New South Wales and the Geelong refinery in Victoria
- BP operates the Bulwer Island refinery in Queensland and the Kwinana refinery in Western Australia
- Mobil operates the Altona refinery in Victoria.

In 2007–08 these refineries produced 82 per cent of the petrol sold in Australia. At the wholesale level, Caltex, Shell, BP and Mobil (the refiner–marketers) were responsible for 96 per cent of petrol sold in 2007–08.

Of itself, this level of concentration need not give rise to concerns about the state of competition. There are other highly concentrated industries in Australia where competition works acceptably. However, in the Australian petrol industry the operation of the buy–sell arrangements and the low potential for independent imports have a bearing on the functioning of competition. The ACCC is continuing to examine the data it has collected on wholesale transactions to develop its understanding of the role played by the buy–sell arrangements.

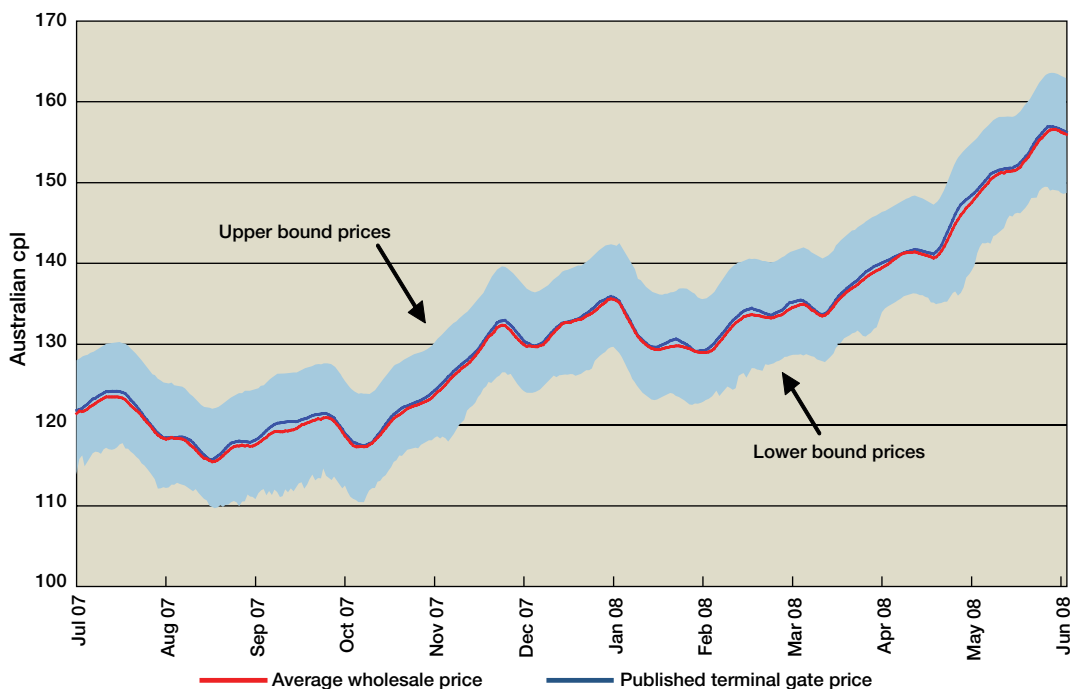
3 Wholesale prices

The ACCC obtained information on wholesale transactions in the industry. These are the prices retailers pay for petrol. Based on this information the ACCC compared the actual wholesale prices paid with the average terminal gate prices published by wholesalers. Chart 5 shows the range of actual wholesale prices paid and the published TGPs. The chart shows that there is a close relationship between the average wholesale price and published TGPs. However, individual wholesale prices can vary from the average and tend to fall within a 13 cpl band around the average published TGP.

The range in actual wholesale prices is driven to a large extent by the types of services that are included in the transaction. Some customers receive a suite of services with their wholesale purchase including delivery, branding and price support. These wholesale transactions tend to attract a higher price. Other customers receive no additional services with their petrol purchases. These wholesale transactions tend to attract a lower price.

In addition, the relative bargaining power of a particular customer is likely to affect the price it is offered relative to the published TGP. For example, in many industries it is common to offer volume discounts to customers that place large orders.

Chart 5 Movements in daily actual wholesale prices and published TGPs for unleaded petrol, 2007–08 (using seven-day rolling averages)



Source: Chart 5.3.

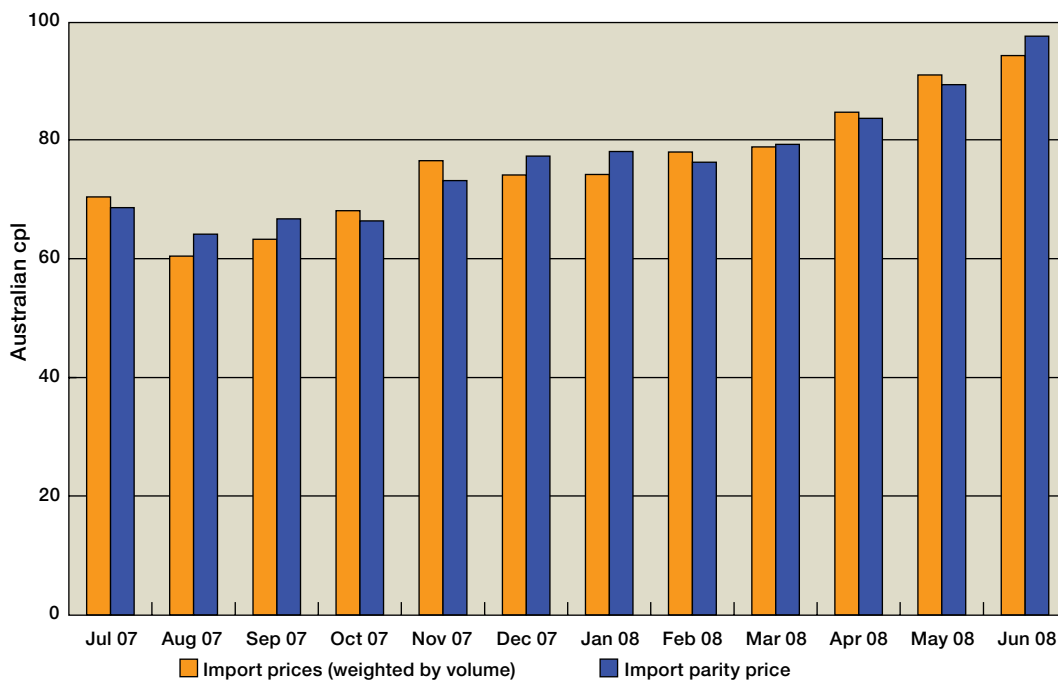
4 Import competition

The refiner–marketers accounted for about 93 per cent of the petrol imported into Australia in 2007–08. This high share is unsurprising because the refiner–marketers control most terminals that are capable of receiving imports. Of the 55 terminals around Australia that are capable of receiving imports, 46 of these are owned by the refiner–marketers while a further four are controlled by them through lease arrangements. Consequently, the constraint imposed by actual or potential import competition is reduced. The Department of Resources, Energy and Tourism (RET) is currently managing an audit of terminal facilities.

Imports account for around 18 per cent of unleaded petrol sold in Australia, with most sourced from Singapore. The ACCC examined around 250 transactions of imported unleaded petrol in 2007–08. Chart 6 shows the average monthly price of imports against the import parity price (IPP), which is a notional price based on the cost of importing petrol into Australia.

In general, actual import prices move in line with the IPP. However, there is some divergence (up to 4 cpl) between the two series. This divergence is most likely because of movements in prices from the time orders are placed to the time they are received.

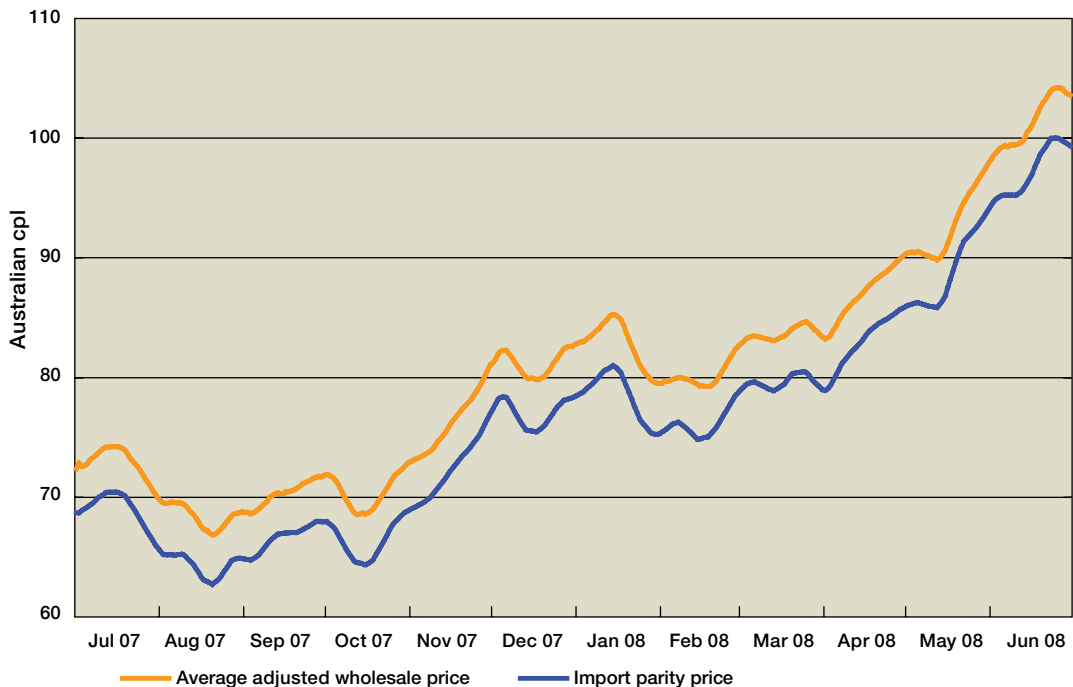
Chart 6 Average monthly actual import prices and average monthly IPPs for unleaded petrol: 2007–08



Source: Chart 5.1.

The ACCC compared the actual wholesale prices (after adjusting for taxes) for unleaded petrol by service stations with the IPP. The wholesale prices were obtained from invoices for individual petrol sales by the petrol wholesalers. In general, chart 7 shows that average wholesale prices largely move in line with the IPP.

Chart 7 Average adjusted wholesale prices and IPP for unleaded petrol: 2007–08



Source: Chart 5.4.

5 Retail competition

Retail prices in Australia have tracked the Singapore benchmark unleaded petrol price closely over the past year. However, there have been two instances where retail prices have diverged from international benchmark prices and the ACCC considered that further investigation was warranted. These instances were in December 2007/January 2008 and October 2008. In both cases retail prices were slow to follow declines in international benchmark prices.

The ACCC held discussions with the major petrol retailers about this divergence and undertook significant data analysis.

The ACCC concluded that the main influences contributing to the divergence in December 2007/January 2008 were supply issues at a number of refineries around Australia combined with relatively sharp decreases in the price of Singapore Mogas 95 Unleaded.

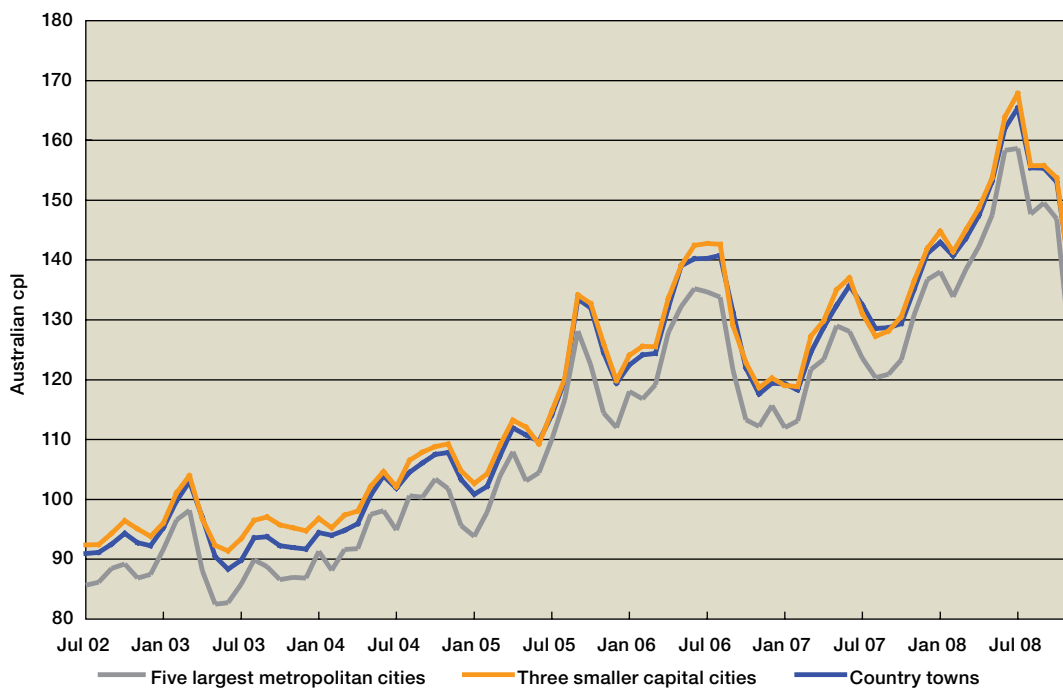
The ACCC concluded that the key factors for the mid-October 2008 divergence were the significant volatility in the prices of Singapore Mogas 95 Unleaded and the \$A/\$US exchange rate over this period:

- From early July 2008 to mid-November 2008, the daily price of Singapore Mogas 95 Unleaded decreased by over \$US100 per barrel (or almost 70 per cent).
- Over the same period the \$A/\$US exchange rate decreased from around \$0.95 in early July 2008 to around \$0.64 in mid-November 2008 (or almost 33 per cent).

Over time there is a broadly stable relationship between movements in retail prices and movements in Singapore Mogas 95 Unleaded prices. However, unprecedented volatility in product and financial markets in the past few months caused a short-term misalignment in this usual relationship, which led to a divergence in these two price series in mid-October 2008. Since then, the relationship between movements in retail prices and movements in Singapore Mogas 95 Unleaded prices has reverted to normal.

One further issue that arose in the ACCC 2007 petrol inquiry was the differential between country and city prices. The ACCC has found that there is a persistent differential between the retail price of petrol in the five largest metropolitan cities and the three smaller capital cities and regional centres (see chart 8). In 2007–08 average prices in the three smaller capital cities and country towns were about 6 to 7 cpl higher than in the five largest metropolitan cities. The higher prices in the smaller centres are not unexpected since retail prices in these centres are affected by higher transport costs, lower volumes and less competition.

Chart 8 Average monthly unleaded petrol prices in the five largest metropolitan cities, the three smaller capital cities and country towns: July 2002 to November 2008



Source: Chart 6.2.

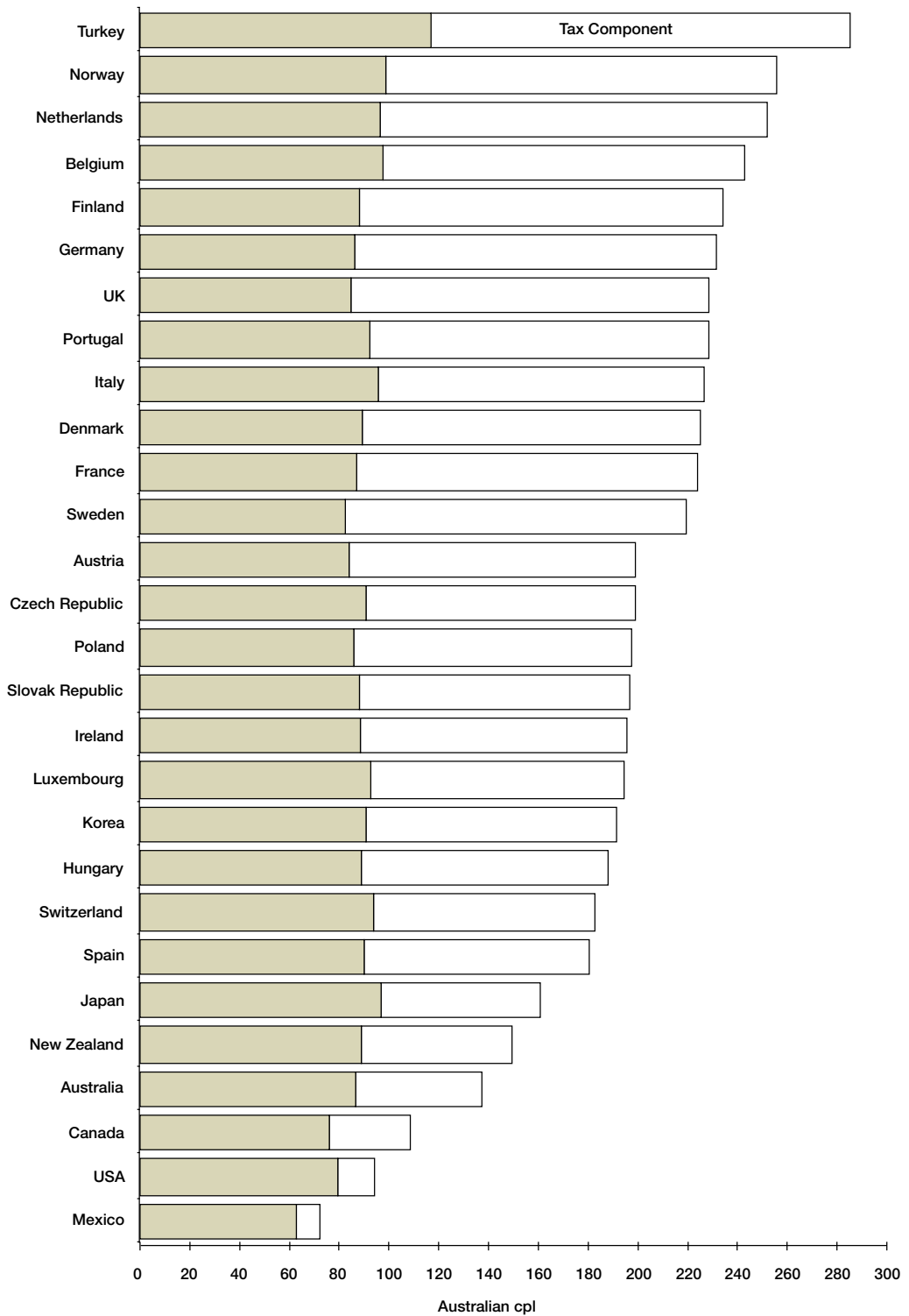
Retail petrol prices in Australia are at the lower end when compared with other countries in the Organisation for Economic Co-operation and Development (see chart 9). Information on retail petrol prices in OECD member countries is provided by RET on a quarterly basis.⁴ Much of the variation in prices between countries is caused by the treatment of tax.

⁴ Note that there are a range of issues that can affect the comparability of international retail petrol prices.

The latest available data shows that, among the 29 OECD countries surveyed, Australia had:

- the fourth cheapest petrol (after Mexico, the United States of America and Canada) reflecting a relatively low tax rate in Australia
- the sixth cheapest pre-tax petrol (after Mexico, Ireland, the United States of America, the United Kingdom and Sweden).

Chart 9 Petrol prices and taxes in OECD countries: June 2008 quarter



Source: Department of Resources, Energy and Tourism, *Australian Petroleum Statistics*, issue no. 186, September 2008.

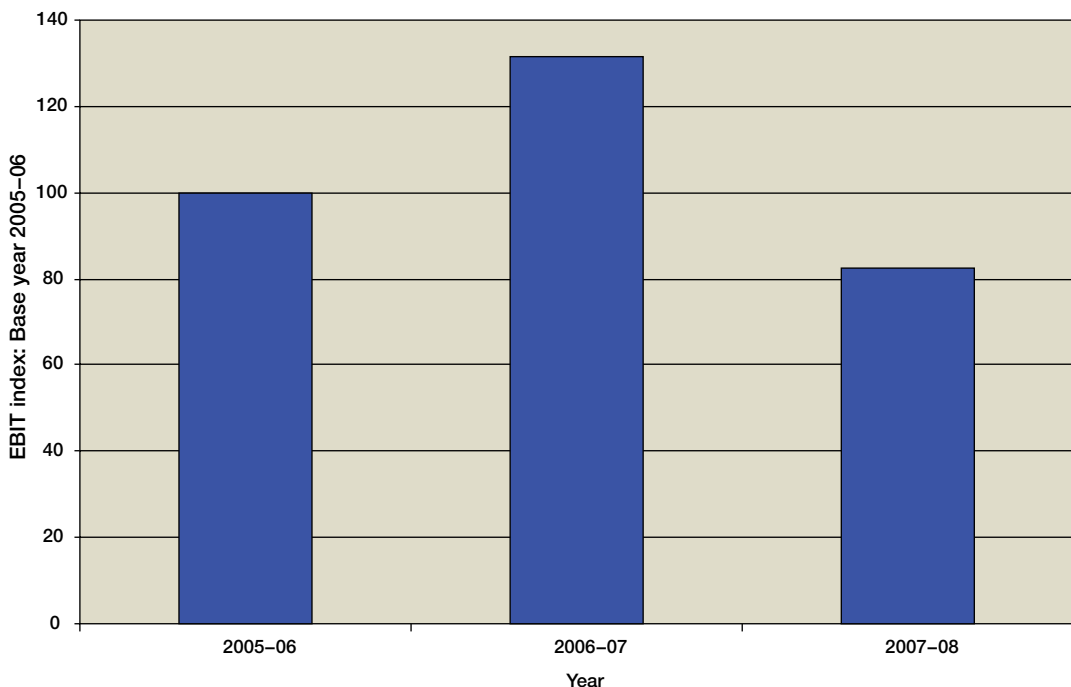
6 Profitability of the petrol industry

The ACCC has found that the overall profitability of the petrol industry has been somewhat volatile over the past three years. However, profitability has not increased in the past year even though the retail price of petrol has increased considerably. Chart 10 shows the aggregate earnings before interest and tax (EBIT) expressed as an index for all firms surveyed by the ACCC for this monitoring report.⁵ Between 2006–07 and 2007–08, EBIT decreased by 38 per cent.

The ACCC understands there were issues with the operation of some refineries in 2007–08 and this may have contributed to the lower level of EBIT in that year.

The ACCC also notes that both revenue and costs at each level of the industry have increased significantly in 2007–08. These increases are primarily because of increases in the underlying cost of materials, which has primarily been caused by the increase in the price of crude oil and its flow-on effect.

Chart 10 Aggregate industry earnings before interest and tax index for surveyed companies: 2005–06 to 2007–08



Source: Chart 9.13

Further, the level of profitability of the petrol industry is not particularly high in comparison with other industries. The ACCC has estimated that the ratio of EBIT to assets for petrol is in the order of 10 per cent for 2007–08.

⁵ Note that the ACCC survey does not include all companies at the wholesale and retail level.

1 Background and introduction

1.1 The minister's direction

On 17 December 2007 the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, the Hon. Chris Bowen MP, directed the Australian Competition and Consumer Commission to monitor the prices, costs and profits of unleaded petrol in Australia. The minister made this direction after receiving the *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol* (the petrol inquiry report) in December 2007.¹

The minister directed the ACCC to monitor the prices, costs and profits of unleaded petrol products for a period of three years and report to him by 17 December each year. The letter and direction is provided at appendix A.

The monitoring of the prices, costs and profits of unleaded petrol has been undertaken in accordance with Part VIIA of the *Trade Practices Act 1974* (the Act). The ACCC's functions under this part are to:

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

Part VIIA of the Act also enables the ACCC to compel the provision of information and documents (s. 95ZK) where necessary.

1.2 Objectives of the monitoring report

In line with the minister's direction, the objectives of this monitoring report are to:

- better inform consumers as to the operation of the petrol industry
- focus on the wholesale element of the market (including imports) where competition was considered to be less than fully effective in the 2007 ACCC petrol inquiry report
- examine the trends in prices, costs and profits based on a methodology that can be applied consistently in the three monitoring reports directed by the minister.

This monitoring report builds on rather than replicates the work of the petrol inquiry report. The reader is referred to the petrol inquiry report for a detailed overview of the industry and the key issues.

1 The Hon. Chris Bowen MP, Assistant Treasurer and Minister for Competition and Consumer Affairs, media release no. 002, 18 December 2007.

1.3 Data collection and approach

1.3.1 Identifying industry stakeholders

In light of the ACCC's experience in the petrol inquiry, the ACCC selected a range of industry stakeholders that could provide maximum coverage of the industry with a particular focus on wholesale prices, imports and import terminals. On this basis, the ACCC requested information from:

- refiner–marketers (Mobil², Shell, BP, Caltex)
- supermarket chains (Coles Express, Woolworths)
- large independent retail chains (Gull, United, 7-Eleven, Neumann³)
- independent wholesalers (Liberty, United, Gull, Neumann).

The ACCC also obtained information on retail petrol prices from Informed Sources. It should be noted, however, that in light of the ACCC's objective to obtain maximum coverage of the industry within the time permitting, data was not collected from smaller independent retailers for this report.

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

1.3.2 Data collection process

Shortly after the minister directed the ACCC to formally monitor prices, costs and profits, the Chairman of the ACCC, Mr Graeme Samuel, wrote to the refiner–marketers and major retailers announcing the start of the formal monitoring process and advising that the ACCC would contact them early in 2008 with its requirements for data collection.

The draft data requirements of the monitoring program were further detailed in a letter to the refiner–marketers in February 2008. The ACCC then began a consultative process to meet with industry to discuss the ACCC's data requirements. These discussions highlighted the need for the ACCC to develop specific data templates that would be used by industry. Drafts of the templates were sent to industry for comment and were refined.

Industry was given a deadline of 1 September 2008 to finalise their responses and forward them to the ACCC. The ACCC considered that this timeframe was achievable given the amount of consultation undertaken.

The ACCC notes that a majority of industry participants provided data to the ACCC on a voluntary basis.

Some concern was raised by industry participants that they may breach confidentiality clauses in contracts with third parties should they provide certain data voluntarily to the ACCC. In these instances, the ACCC exercised its power under Part VIIA of the Act, which enables the ACCC to compel the provision of information and documents (s. 95ZK).

² Data for retail operations was collected from Strasburger Enterprises (Properties) Pty Ltd (SEP), which operates retail sites under the Mobil brand.

³ These retail chains were selected because they operate about 50 service stations each.

The ACCC began to receive responses from industry in late August, with most responses provided to the ACCC by early September 2008. However, after conducting an initial assessment of the information provided, the ACCC identified areas where industry had provided insufficient information. The ACCC continued to work with industry throughout October and November 2008 to obtain further information from stakeholders.

1.3.3 Data templates

Information requested from each of the industry stakeholders is outlined below.

Refiner–marketers

Refiner–marketers were asked to provide annual data on a financial year basis, including volumes, revenues, costs and profits, from 2002–03 to 2007–08 for their refinery/supply, wholesale/distribution/marketing and retail functions. Annual data was also requested for refiner–marketer import terminal activity.

The ACCC requested transaction data on refiner–marketer buy–sell arrangements, wholesale transactions and import transactions and for daily benchmark pricing and retail sales volume for the 2007–08 financial year. The ACCC also requested wholesale prices and retail volumes for 2007–08 on a daily basis. In the cases of Shell and Mobil, the retail information was provided by Coles Express and SEP respectively. Caltex provided data for the retail stores that it owns and operates, while Woolworths provided information on sites leased from Caltex.

Supermarket chains

The ACCC requested historical data on a financial year basis for volumes, revenues, costs and profits from 2003–04 to 2007–08 for retail functions from supermarket chains.

Retail sales volumes for the supermarket chains in the 2007–08 financial year were requested on a daily basis for metropolitan and non-metropolitan sites by state.

Large independent retail chains

Historical data on a financial year basis for volumes, revenues, costs and profits from 2003–04 to 2007–08 for retail functions was requested from the large independent retail chains. Annual transaction-based data was requested for any import activity.

Retail sales volumes for the large independent retail chains in the 2007–08 financial year were requested on a daily basis for metropolitan and non-metropolitan sites by state.

Independent wholesalers

Independent wholesalers were asked to provide annual data on a financial year basis, including volumes, revenues, costs and profits, from 2002–03 to 2007–08 for their wholesale and distribution functions. Data was also requested for independent wholesaler import activity on an annual transaction basis.

Import terminals

The refiner–marketers, independent wholesalers and independent terminal owners were requested to provide information on the ownership, usage and constraints of import terminals in Australia.

1.3.4 Challenges with the data

The ACCC faced a number of challenges during its process of collecting information from industry stakeholders. These are outlined below.

Consistency with industry accounts

A degree of care and caution should be exercised when examining the data presented in this report. Monitoring the costs, revenues and profitability of the downstream petrol industry is complicated by the fact that individual companies, in particular the refiner–marketers, use a variety of accounting models and organisational structures. The ACCC has attempted to make the financial data collection as standardised as possible while taking into account the potential cost to companies of working outside their existing accounting systems. However, these accounting differences have inevitably complicated comparisons of financial performance across vertical layers, companies and groups of competitors.

In addition, refiner–marketers indicated that they do not usually allocate costs to particular products at the refinery level. This is because refineries jointly produce a mix of products, and there is not a unique way of allocating joint and common costs to individual product types. The ACCC understands and accepts this point. The discussion of costs at the refinery level necessarily includes all refinery production. However, to obtain an indication of the profitability of petrol, the ACCC has undertaken an allocation exercise. This indicator should be reviewed in conjunction with the appropriate caveats.

Another issue to bear in mind when interpreting the data is that the data reported at the wholesale and retail levels does not cover the whole industry. Owing to the large number of small operators present in the industry, data was not obtained from wholesalers other than the refiner–marketers and Liberty, United, Neumann and Gull. At the retail level, data was not obtained from independent retailers other than the large independent chains identified.

Finally, much of the financial information that has been provided to the ACCC is commercially sensitive. Thus the discussion of costs, revenues and profits must necessarily be at an aggregate rather than company level.

The ACCC has been reviewing the data and liaising with the companies to understand the issues with the data. The ACCC intends to work with the monitored companies to further review the data provided before the next report.

Time series and base data

In order to comply with the minister's direction, the ACCC considered it necessary to analyse prices, costs and profits over time. In light of the work carried out on the petrol inquiry, the ACCC considered that a six-year time series would represent a sufficient period to accurately report in accordance with the direction by the minister. Consequently, the ACCC sought historical data from the 2002–03 financial year to the 2007–08 financial year.

The ACCC also considered that using similar base data to that used in the petrol inquiry would enable the ACCC to develop a consistent approach and allow the comparison of data received for the purposes of the petrol inquiry. While most stakeholders were able to provide data over the requested time series, Shell expressed difficulties in providing all the requested historical financial data because of a change in its internal finance systems.

Aggregation of information to protect confidentiality

During consultation, industry raised concerns about the public release of commercially sensitive information. In order to preserve this level of confidentiality the ACCC is only able to publish an aggregate of data.

1.3.5 Limitations of the data

The ACCC notes the following limitations in the data:

- Data is not a complete representation of the industry as it does not include data from smaller independent wholesalers or retailers.
- It was not possible to present a full six-year time series of data because of changes in accounting systems at one of the refiner–marketers.
- The ACCC has been required to present the data in an aggregated form to protect commercially confidential data.

1.4 Role of the ACCC in the petrol industry

The ACCC is responsible for administering the Trade Practices Act and other Acts. The purpose of the Trade Practices Act is to enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection.

The ACCC was formed in 1995 through a merger of the Prices Surveillance Authority and the Trade Practices Commission. The ACCC and its precursor agencies have had a long involvement in the petroleum industry. This includes prices surveillance, informal price monitoring, education and enforcement of the Act; since March 2007 the ACCC has also been administering the Oilcode.

Before 1 August 1998 petrol prices were included in the prices surveillance provisions of the *Prices Surveillance Act 1983*. Under these arrangements, the ACCC established the maximum wholesale prices for petrol, including freight differentials.

The Australian Government deregulated petrol prices from 1 August 1998 because the arrangements were considered to have an adverse effect on the retail petrol market. The Australian Government considered that the maximum endorsed wholesale price in the capital cities acted as a target for prices at the end of a discount cycle, while in the country the maximum endorsed wholesale price acted as a price floor underwriting the price paid by country consumers.

1.4.1 The ACCC 2007 petrol inquiry

In June 2007 the ACCC wrote to the then Treasurer, the Hon. Peter Costello MP, in relation to domestic petrol prices. The ACCC observed that a discrepancy had arisen between movements in domestic petrol prices and international petrol prices, and proposed that a price inquiry should be held under Part VIIA of the Trade Practices Act. The ACCC indicated that the inquiry should cover the current industry structure, an assessment of competition in the industry, and current impediments to efficient petrol pricing and possible methods to address them.

On 15 June 2007 the then Treasurer approved the holding of a price inquiry into the price of unleaded petrol pursuant to s. 95H(2) of the Act. The petrol price inquiry reported in December 2007.

The petrol inquiry report highlighted fundamental structural issues that raised concerns about current operations and future competitiveness of the Australian petrol industry. Key findings included the following:

- There is no obvious evidence of price fixing or collusion between the major participants in the industry.
- Fundamental pricing of petrol is dictated by international factors.
- Competition exists in wholesale petrol markets in Australia, but it is not fully effective.
- There are impediments to the most significant potential competitive threat to domestic refiners—the large-scale importing of petrol by an independent.
- Impediments to importing are self-reinforcing, making the barriers to large-scale independent importing of petrol substantial.
- Buy–sell arrangements may have had the effect of lessening competition in wholesale petrol markets.
- The four refiner–marketers and the supermarket alliances control a significant share of the retail market.
- Information sharing arrangements between major retailers provide them with significant advantages over customers and smaller retailers.

The Australian Government responded to the recommendations and issues raised in the petrol inquiry report on 15 April 2008. In brief, the Australian Government:

- supported the ACCC's recommendation for a more detailed examination and ongoing monitoring of 'buy–sell' arrangements
- agreed to the ACCC's recommendation for a comprehensive audit of import terminals to be managed by the Department of Resources, Energy and Tourism (RET)
- agreed that the appropriateness of the arrangements for terminal gate price (TGP) publication be reviewed as part of the scheduled review of the Oilcode by RET
- noted the ACCC's recommendation that s. 45 of the Act should be amended to clarify the meaning of the term 'understanding', and indicated that it would give this recommendation further consideration in the context of other amendments to the Act currently underway
- noted that the ACCC will continue to consider developments in petrol shopper docket arrangements.

1.5 Report structure

This monitoring report is structured as follows:

Chapter 2 provides an overview of the structure of the petrol industry in Australia.

Chapter 3 provides an overview of the ownership, capacity and usage of import terminals in Australia.

Chapter 4 considers the import parity price methodology and its impact on the industry.

These three chapters provide a foundation for understanding the approach taken in this report and the results presented. In particular, they provide necessary background for the focus on those areas where the petrol inquiry report indicated that competition is less than fully effective.

Chapter 5 considers pricing in the wholesale market.

Chapter 6 discusses retail petrol price movements.

Chapter 7 presents an analysis of price movements in regional centres.

Chapter 8 analyses various elements of retail petrol prices.

Chapter 9 considers industry costs, revenues and profits.

2 Industry structure

2.1 Introduction

The structure of the Australian petrol industry is complex and highly integrated at all levels from domestic refining to importing, wholesale and retail. The petrol inquiry report considered in detail the structure of the Australian petrol industry—this chapter builds on that analysis. The inquiry identified fundamental structural issues that raised concerns about the effectiveness of competition in the Australian petrol industry. The report found that the petrol market was highly concentrated at the refinery and wholesale levels with significant barriers to entry in both sectors. This is unchanged.

2.2 Refining

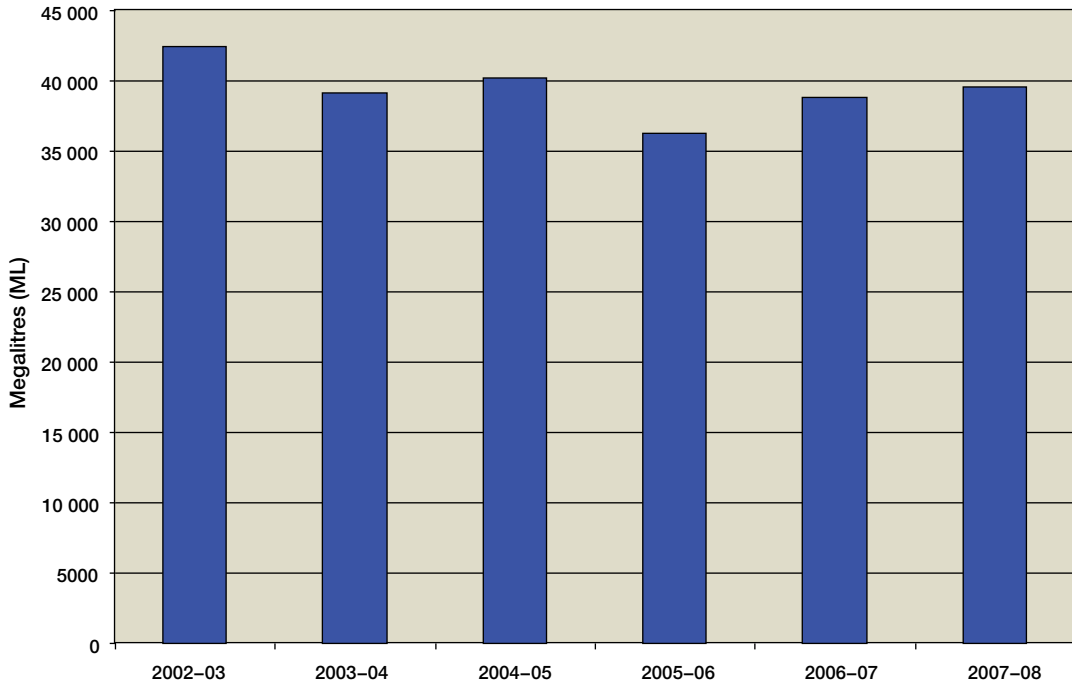
2.2.1 Structure

Four companies operate in the Australian refining sector: BP, Caltex, Mobil and Shell. There are seven refineries in total: two in New South Wales, two in Victoria, two in Queensland, and one in Western Australia. As South Australia, Tasmania and the Northern Territory do not have refineries, they source unleaded petrol from domestic and international refineries.

The number of refineries in Australia has remained static since 2003 when the Port Stanvac facility was 'mothballed'. In the period from 2002–03 to 2007–08, capital expenditure was mostly on refinery upgrades and maintenance to meet changes in Australian fuel standards.

Output from Australian refineries increased slightly in 2007–08 (chart 2.1). Production levels are now approaching the levels achieved in 2002–03, before the mothballing of Port Stanvac.

Chart 2.1 Output of Australian refineries in the production of marketable products: 2002–03 to 2007–08*



Source: Australian Petroleum Statistics, Department of Resources, Energy and Tourism.

* Marketable products include automotive fuels, aviation fuels, industrial and marine fuels, heating oil, fuel oil, lubricating oils, greases, basestocks and bitumen.

2.2.2 Capacity and production levels per refinery

The theoretical (nameplate) capacity of Australian refineries for the production of all petroleum products is 42 720 ML per annum (table 2.1).¹ Nameplate capacity is the potential output if the refinery is running at optimum utilisation. Refineries are unlikely to operate at this level for an entire year due to scheduled maintenance shutdowns, unscheduled shutdowns due to refinery failure and inherent difficulties in balancing crude inputs with demand for outputs. However, the nameplate capacity can be exceeded, for example, by increasing the use of blend components, which do not need to be distilled.

In terms of the combined nameplate capacities, Sydney (12 470 ML), Brisbane (11 380 ML) and Melbourne (10 910 ML) have the highest capacities.

¹ This is about 734.3 thousand barrels per day (KBD). In comparison, the refinery being built by Reliance Ltd at Jamnagar on India's north-west coast is due to reach full production of 1200 KBD by 2009–10. This is almost double the combined capacity of Australia's refineries. As outputs will exceed the Australian standard it will be suitable for import, ready for sale to Australian consumers.

Table 2.1 Refinery capacity 2007–08

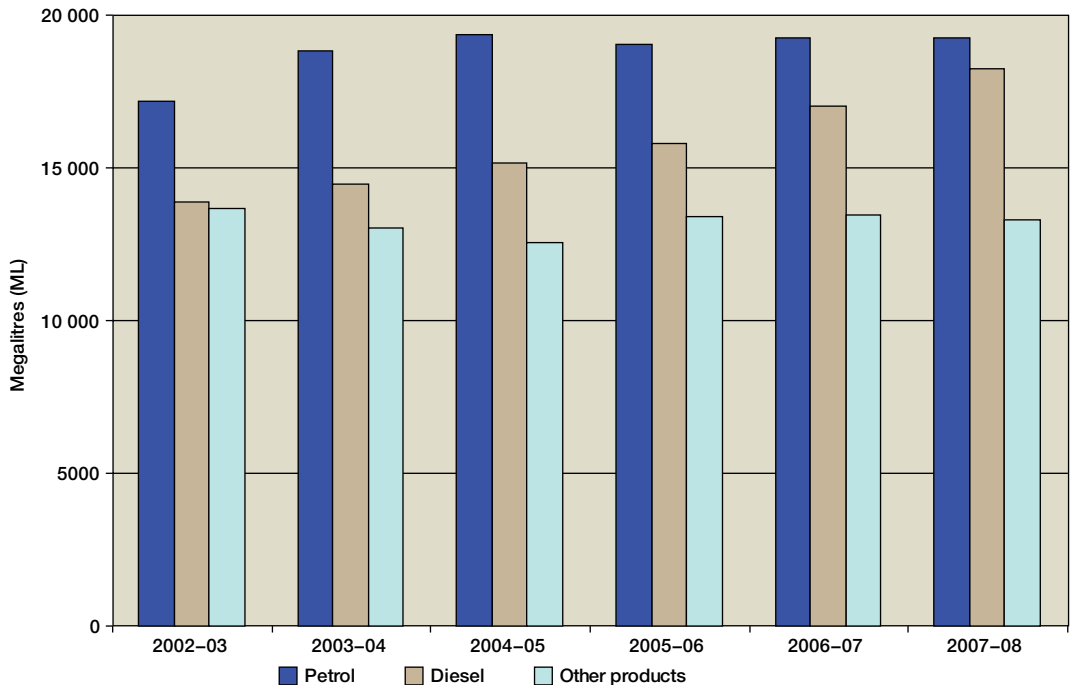
Refinery location			Capacity (ML per annum)
City	Suburb	Owner	
Brisbane	Bulwer Island	BP	5110
Brisbane	Lytton	Caltex	6270
Subtotal Brisbane			11 380
Geelong	Corio	Shell	6380
Melbourne	Altona	Mobil	4530
Subtotal Melbourne			10 910
Sydney	Clyde	Shell	4930
Sydney	Kurnell	Caltex	7540
Subtotal Sydney			12 470
Perth	Kwinana	BP	7960
Total			42 720

Source: Australian Institute of Petroleum, *Downstream Petroleum 2007*.

2.2.3 Sales of refinery products in Australia

The volume of refinery products sold in Australia has increased since 2003–04 with the growth in sales of diesel significantly outstripping sales growth in petrol (chart 2.2). Growth in industries particularly the mining sector has underpinned the stronger demand for diesel.

Chart 2.2 Volume of refinery products sold in Australia: 2002–03 to 2007–08



Source: Australian Petroleum Statistics, RET.

Note: Other products include leaded fuel, LPG, aviation gasoline and turbine fuel, heating oil, industrial and marine diesel fuel, fuel oil, lubricating oils and greases and bitumen.

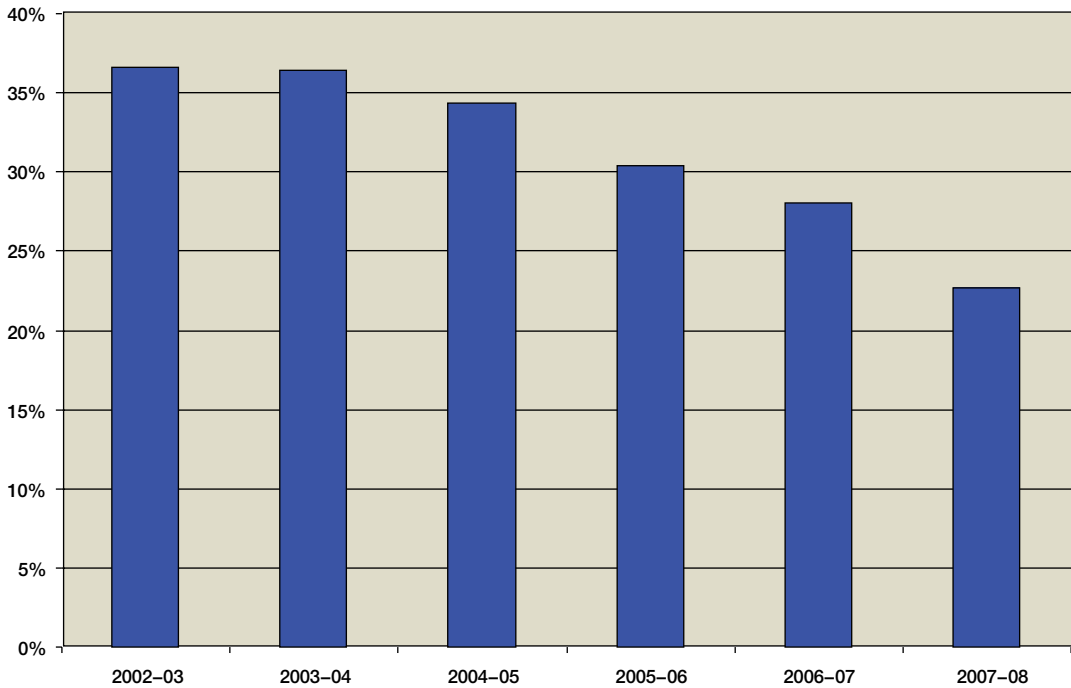
2.2.4 Petrol refining—crude oil sources

From 2002–03 to 2007–08 there has been an overall decrease in the use of crude oil in Australia. The use of domestic crude oil has decreased significantly over the period.

During this period there has been a marginal increase in imported crude oil along with an increase in imported refined products.

In 2002–03, 37 per cent of crude oil refined in Australia was sourced domestically; by 2007–08 this had fallen to 23 per cent (chart 2.3).

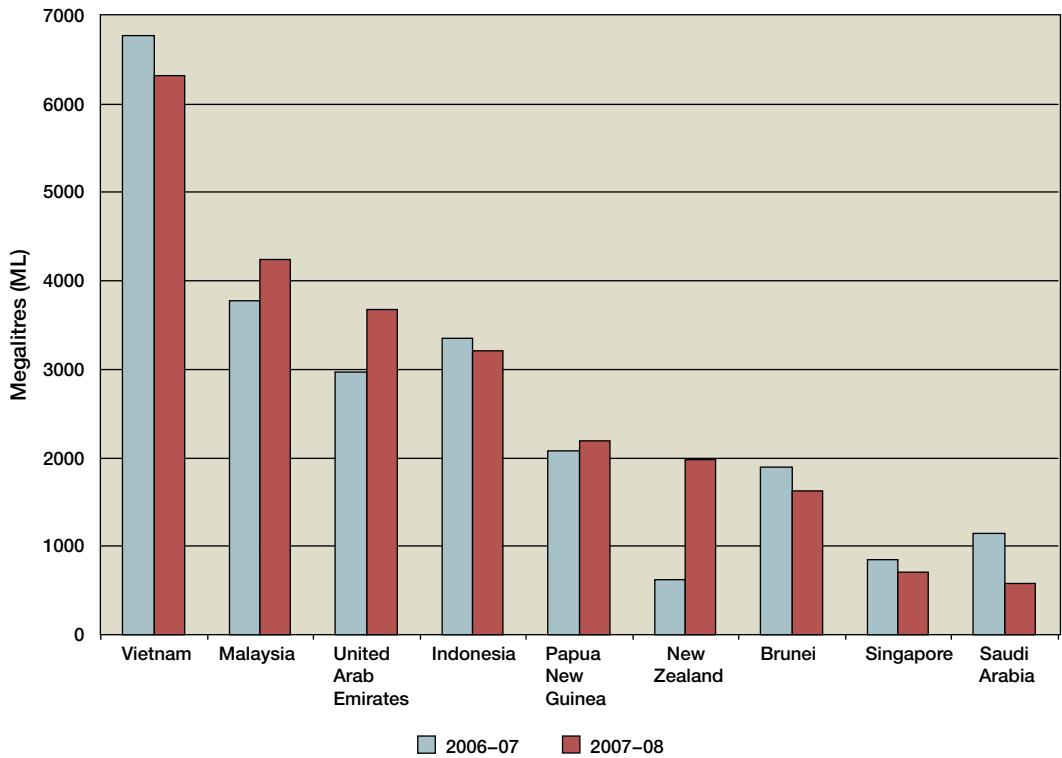
Chart 2.3 Domestic crude oil as a percentage of total crude oil refined in Australia: 2002–03 to 2007–08



Source: Australian Petroleum Statistics, RET.

Vietnam was the major source of crude oil being imported into Australia in 2007–08, followed by Malaysia and the United Arab Emirates (chart 2.4). In 2007–08 imports from Malaysia, United Arab Emirates and New Zealand increased from 2006–07 while imports from Vietnam, Indonesia, Saudi Arabia and Brunei declined.

Chart 2.4 Sources of crude oil imports to Australia: 2006–07 and 2007–08

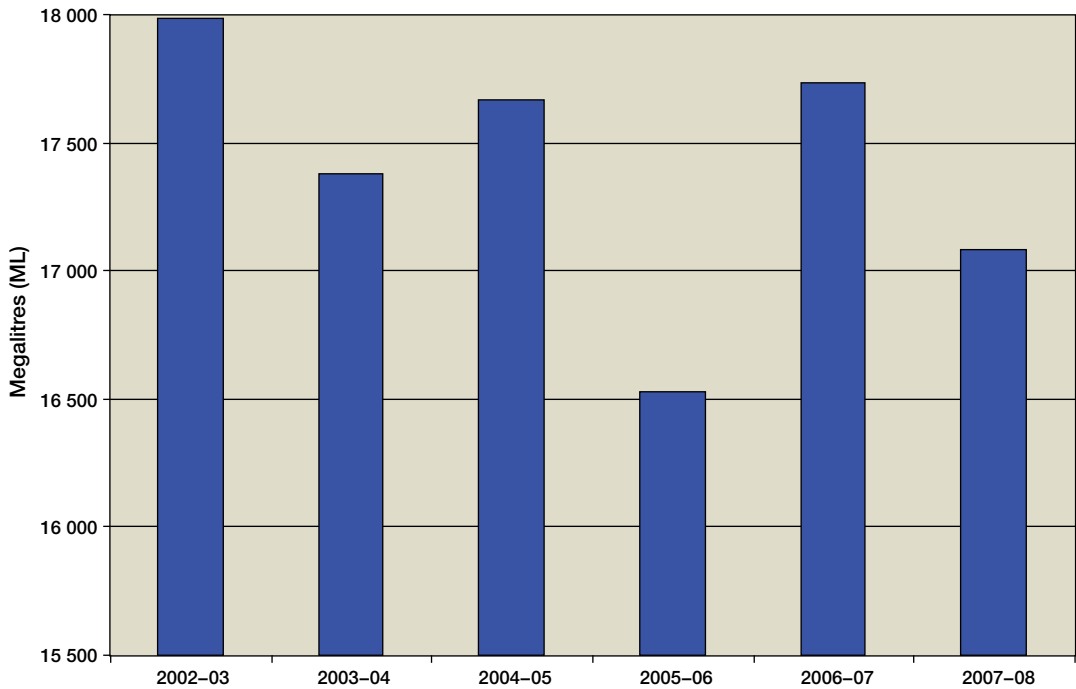


Source: Australian Petroleum Statistics, RET.

2.2.5 Petrol production: 2002–03 to 2007–08

Australian petrol production has fluctuated in the past six years. Petrol volumes for all Australian refineries decreased by 5 per cent between 2002–03 and 2007–08 (17 984 ML to 17 080 ML) (chart 2.5). Falls in annual production in 2003–04 and mid-2007–08 were primarily due to the mothballing of Mobil’s Port Stanvac refinery in 2003 and temporary shutdowns and maintenance at a number of the east coast refineries in 2007–08.

Chart 2.5 Petrol production—Australian refineries: 2002–03 to 2007–08



Source: Australian Petroleum Statistics, RET.

In the refining sector, market share is divided among the four refiner–marketers (table 2.2). Since 2002–03:

- Caltex has increased its share of production to 33.8 per cent in 2007–08
- Mobil’s and BP’s share of production declined to 13.8 and 27.2 per cent respectively while Shell’s has remained steady at 25.2 per cent.

Table 2.2 Share of petrol production in Australia: 2002–03 to 2007–08 (%)

	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
BP	30.8	32.7	32.7	29.3	30.3	27.2
Caltex	26.0	27.4	28.4	30.8	32.9	33.8
Mobil	18.0	13.8	14.0	13.4	12.3	13.8
Shell	25.3	26.2	24.9	26.6	24.5	25.2

Source: Table 3.2, ‘Share of total unleaded petrol production by refiner–marketer, 2002–03 to 2006–07’, *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol*, December 2007, p. 53, and information provided by the companies for 2007–08.

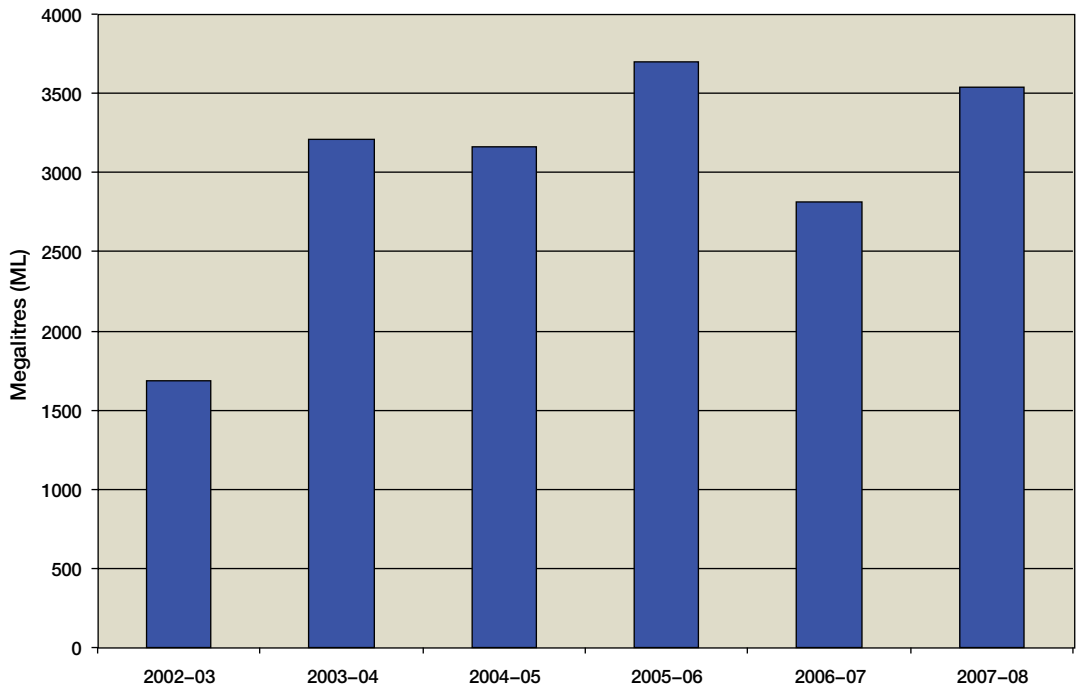
2.3 Petrol imports and exports

2.3.1 Imports

Importers of petrol into Australia are largely the refiner–marketers with a few smaller independent importers such as Neumann, United and Gull.

Since the mothballing of Mobil’s Port Stanvac refinery in 2003, imports of petrol have been in the order of 3000 ML per annum (chart 2.6). Variations have largely been because of the refiner–marketers bringing in additional imports to cover temporary shutdowns of local refineries.

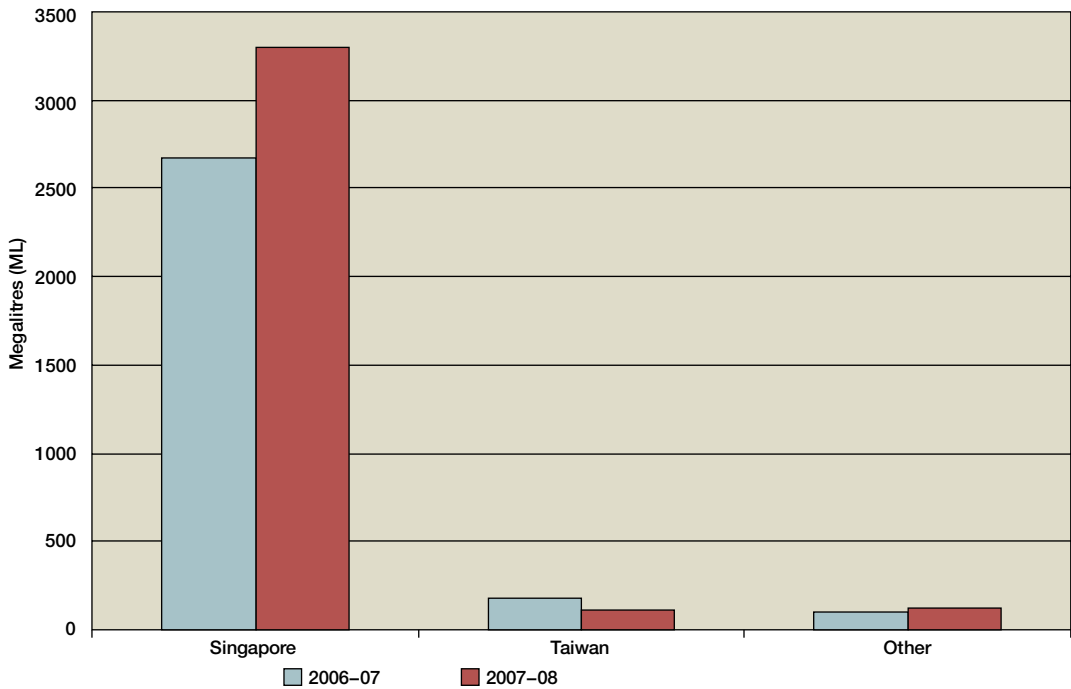
Chart 2.6 Volume of petrol imports: 2002–03 to 2007–08



Source: Australian Petroleum Statistics, RET.

Australia imports most of its petrol from Singapore (chart 2.7). This increased significantly from 2006–07 to 2007–08, while there was a fall in the volumes from Taiwan, the only other key source.

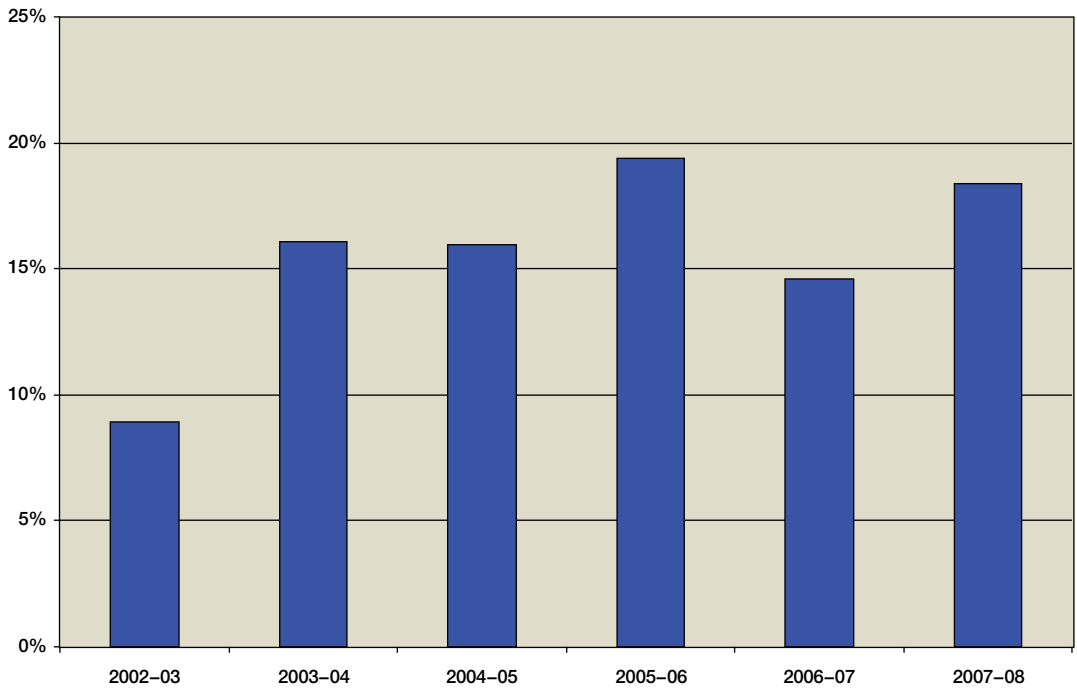
Chart 2.7 Sources of petrol imports to Australia: 2006–07 to 2007–08



Source: Australian Petroleum Statistics, RET.

In 2007–08 imports accounted for 18 per cent of sales, a significant increase when compared with 9 per cent of sales in 2002–03 (chart 2.8).

Chart 2.8 Petrol imports as a proportion of sales in Australia: 2002–03 to 2007–08

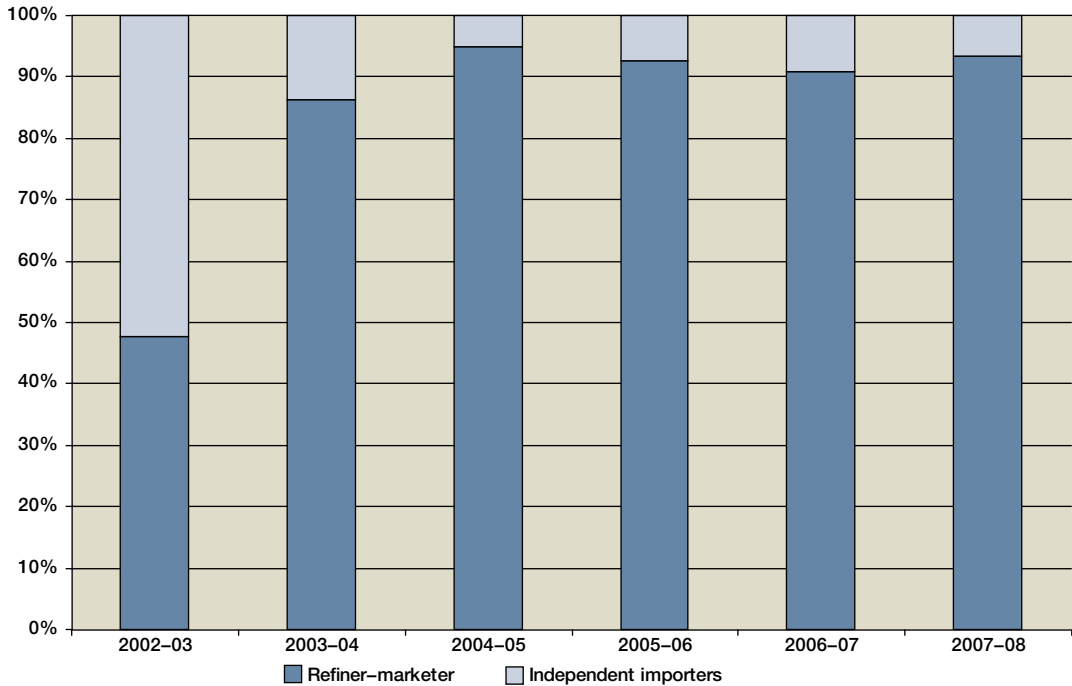


Source: Australian Petroleum Statistics, RET.

The share of independent imports decreased from 9 per cent in 2006–07 to 6.6 per cent in 2007–08 (chart 2.9). By contrast, 52 per cent of imports in 2002–03 were brought in by independent importers. The change in import share is attributable to an increase in imports by refiner–marketers and a decline in independent imports (when Woolworths ceased obtaining petrol from Trafigura in January 2004).²

² ACCC, public hearing transcript, Sydney, 4 September 2007, p. 63.

Chart 2.9 Proportion of petrol imports by refiner–marketers and independent importers: 2002–03 to 2007–08



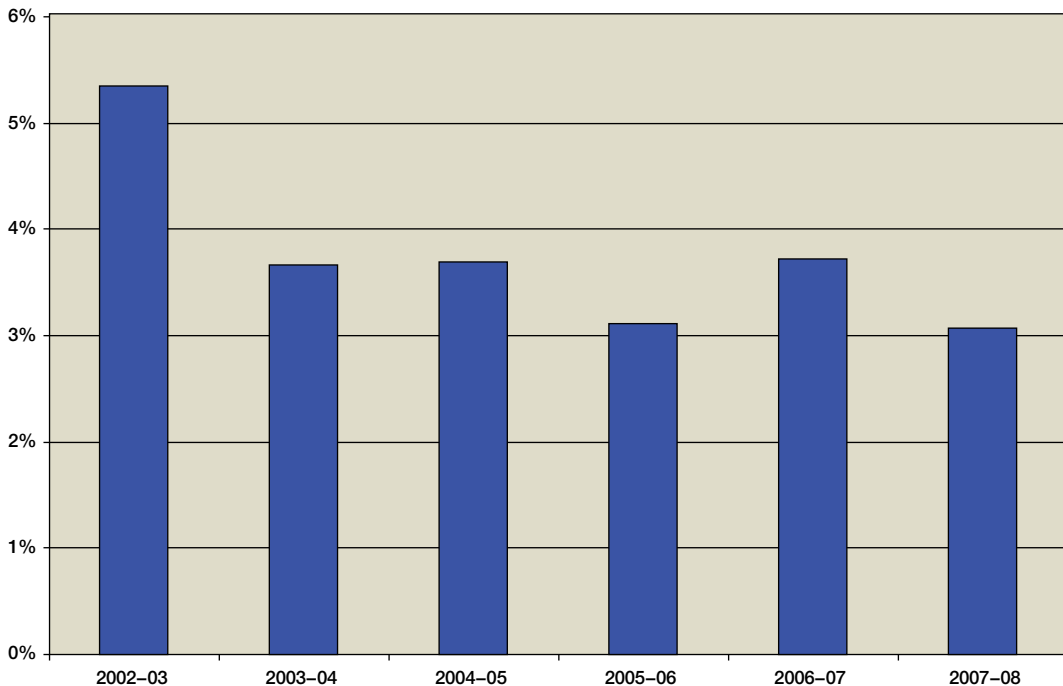
Source: 2007 ACCC petrol inquiry report, p. 65; 2007–08 data provided by companies.

2.3.2 Exports

Petrol exports have constituted a very small proportion of domestic supply (defined as refinery production plus imports) over the past six years (chart 2.10). Refiner–marketers may export when there is excess supply, usually to New Zealand or Singapore.³

³ ACCC, public hearing transcript, Sydney, 4 September 2007, p. 65.

**Chart 2.10 Australian petrol exports as a proportion of domestic supply:
2002–03 to 2007–08**



Source: Australian Petroleum Statistics, RET.

2.3.3 Competition—refining and importing

Competition issues were discussed in detail in the petrol inquiry report. In brief, the refining market is relatively concentrated with four refiner–marketers. Barriers to new entry are significant, with high start-up compliance costs and economies of scale enjoyed by the four incumbents. Furthermore, infrastructure and distribution networks are controlled by the refiner–marketers.

2.4 Wholesale and distribution

2.4.1 Structure

Large independent chains such as Liberty, United, Gull and Neumann operate at the wholesale level along with the four refiner–marketers. The structure of the wholesale sector has changed in recent years because of a range of factors, including supply arrangements between the supermarket chains and their wholesale partners.

The refiner–marketers obtain their fuel from their own refining operations, from imports and from other domestic refiner–marketers under buy–sell arrangements.

Buy–sell arrangements are agreements between refiner–marketers and are principally used to give companies access to petrol in the capital cities where they do not have a refinery.

Independent wholesalers primarily source their petrol directly from the refiner–marketers, though small volumes are obtained by importing through independently owned terminals.

2.4.2 Market share

Table 2.3 shows the share of volume of wholesale petrol sales for the four refiner–marketers and independent wholesalers over the period from 2005–06 to 2007–08. The refiner–marketers sell most of the petrol sold in the wholesale market while market share for independent wholesalers is relatively small. Caltex had the largest individual share over the period. Shell’s market share fell by about 3 percentage points in 2006–07 while most other companies maintained a relatively steady share.

Table 2.3 Share of volume of wholesale sales: 2005–06 to 2007–08 (%)

	2005–06	2006–07	2007–08
Mobil	14	15	15
Shell	30	27	27
BP	17	18	17
Caltex	36	37	37
Independent wholesalers	3	4	4

Source: Data provided by the companies.

Note: Figures may not add to 100 because of rounding.

2.4.3 Competition—wholesale

Concentration in the wholesale market is similar to that in the refinery sector. Independent wholesalers have a limited presence, with 4 per cent market share in 2007–08, which has remained steady for the last three years. The petrol inquiry report identified a number of structural issues in the wholesale market that were impediments to new competition. These are unchanged and include the dominance of refiner–marketers, the buy–sell arrangements and the limited availability of terminals for large-scale importing by independents.

2.5 Retail

2.5.1 Market structure

Petrol retail sites in Australia can be separated into four broad categories on the basis of ownership and wholesale supply arrangements. These are:

- refiner–marketer owned sites
- refiner–marketer branded independent and distributor-owned sites
- supermarket-operated sites (Coles Express and Woolworths)
- independent operator sites selling their own brands.

In the Australian market the refiner–marketers sell petrol at a retail level or supply petrol to other retailers. Large independent retail chains include Gull, United, 7-Eleven and Neumann. Retailing models are based on ownership and wholesale supply arrangements, including branded retail sites that are either owned and/or operated by franchisees, agents, lessees or other retailers.

2.5.2 Shopper docket schemes

The entry of the two major supermarket chains in Australia—Coles and Woolworths—and the use of shopper docket discount schemes have changed the retail market. The ACCC continues to monitor the uptake and petrol volumes sold under these schemes.

Consistent with information obtained during the petrol inquiry, ACCC analysis confirms that a significant proportion of retail sales are sold under these arrangements. For example, Woolworths sold around 60 per cent of fuel under its shopper docket arrangement.⁴ It is also evident that the uptake of other shopper docket schemes not aligned with the supermarket chains is still relatively small.

While the volume of fuel sold under the supermarket shopper docket schemes is significant, the volume sold by the two major supermarkets has steadied over the past two years. Other companies such as Mobil and Neumann have implemented their own shopper docket schemes.⁵ The volume of petrol sold by some of these other shopper docket schemes has increased since 2005 as consumer awareness of these schemes increases.

2.5.3 Market share

Analysis of retail sales volume data was undertaken using industry data provided by RET (Australian Petroleum Statistics) and information provided by companies in their responses to the ACCC. The data collected from the refiner–marketers, supermarkets and large independent chains was for the volume of retail petrol sales. For the refiner–marketers, this only included retail sales volumes for sites they owned and operated, not sites independently owned and operated that were selling refiner–marketer branded fuel.

The data indicates that industry structure at the retail level is significantly different to the structure at the refining and wholesale levels. In particular, industry concentration is much lower at the retail

4 ACCC, public hearing transcript, Sydney, 4 September 2007, p. 181.

5 ACCC, *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol*, December 2007, pp. 190–1.

level, with the refiner–marketers directly controlling a relatively small share of retail sales. In addition to the refiner–marketers, participants at the retail level include the supermarkets, large independent retail chains and a relatively large number of other independently owned retailers.

Over the past four years the following trends were observed:

- Sales by volume for the owned and operated refiner–marketer sites are a comparatively small proportion of total sales and have been stable.
- Large independent retail chains have increased their share.
- The supermarkets' share has steadied following initial rapid growth.
- Other small independently owned retailers have a comparatively large market share but this has declined in the past four years.

2.5.4 Competition—retail

Compared with the refining and wholesale sectors, the retail fuel industry in Australia is less concentrated.

Changes in the industry have seen the continuing rationalisation of service stations, including the move to centralised and highway outlets. Furthermore, the entry of the supermarket chains into the market has had a major impact, especially with the prevalence of their shopper docket schemes.

Other retailers have also responded to this increased competition by introducing a variety of new services, including shops, ATMs, restaurants, and car wash services.

3 Ownership, capacity and use of import terminals

3.1 Overview of fuel storage terminals in Australia

Terminals are storage facilities that receive fuel either from Australian refineries or as imports via shipping ports. These facilities are then accessed by wholesalers, distributors, retailers and end users. Associated terminal infrastructure includes pipelines from refineries and ports to receive fuel, truck/railway loading gantries and distribution pipelines.

To receive imports, terminals must be located close to a port of a size sufficient to receive large tanker-loads of fuel. The depth of the channel leading into the port often constrains the ability of a port to accept international fuel cargoes. Some terminals can receive imports indirectly—for example, those connected by pipeline to refineries with a direct connection to a port.

3.1.1 Ownership arrangements

Most terminals capable of receiving import cargoes are owned and operated by the refiner–marketers either directly or through a joint venture arrangement with another refiner–marketer. Typically, two JV companies own terminal facilities on a 50:50 basis, with one of them being responsible for the operation of the terminal on behalf of the JV. Normally, JVs allow sharing of storage space without reserving capacity for either company. Around 20 per cent of Australian import terminals operate under a JV arrangement.¹

Other import terminals are owned or leased by independent importers or bulk liquid logistics companies that provide storage services to refiner–marketers and independent importers.

3.1.2 Fuel storage arrangements

Three types of arrangements provide refiner–marketers and independent importers with access to terminals they do not own. These arrangements are hosting, borrow and loan, and leasing storage capacity.

A hosting arrangement allows a company to store fuel at another’s terminal. Under a hosting arrangement, access is granted to a specific amount of space at the terminal, though not necessarily a separate tank. A situation in which fuel is mixed with that of the host and/or other companies in the one tank is referred to as co-mingling.

Borrow and loan arrangements are made between terminal owners or operators, and allow companies access to facilities in cities where they do not own terminals. Under this type of agreement the terminal owner or operator receives, stores and distributes fuel for the user company.²

Leasing storage capacity is the third type of arrangement and mostly involves refiner–marketers leasing from independently owned terminals. Leases are often long term in nature and can be for an entire terminal or individual tanks within a terminal.

¹ Unless otherwise stated, all data in this chapter is based on information provided to the ACCC by the companies (September 2008).

² Caltex, additional material provided to the 2007 ACCC petrol inquiry, 19 October 2007.

3.1.3 The importance of import terminals in Australia

The petrol inquiry report noted that the competitive threat posed by independent importers of petrol was one of the main determinants of the degree of competition in the wholesale market for petrol.³

Accordingly, sufficient access by independent importers to terminal facilities in which to store imported petrol is a crucial feature of effective competition at the wholesale level. In this regard, the petrol inquiry concluded that lack of access to suitable terminal facilities was a significant impediment to large-scale importing by independent importers. This is reinforced by the limited retail base available to potential large-scale importers.⁴ Consequently, this chapter focuses on terminals capable of receiving imports.

3.2 Terminal capacity

Storage capacity at terminals is determined by two factors: tank size and volume received and distributed by the terminal in a given period, known as throughput. Maximum potential throughput can be difficult to measure as it is determined largely by the efficiency and effectiveness of the infrastructure associated with the terminal. This in turn is affected by a range of external factors, including availability of labour. The maximum potential throughput of any given terminal is therefore variable over time and may increase or decrease because of external conditions.

Additionally, there is substitutability between storage tanks at terminals used for different fuel types. Terminals are often used to store a variety of fuels such as crude oil, petrol, diesel and aviation fuel. Thus terminal capacity is often flexible in that the mix of fuels stored can be altered to accommodate changing demands although there are some costs associated with doing so.

The variability of maximum potential throughput and flexibility of fuel type storage poses two problems in determining the availability and use of storage capacity at terminals in Australia. First, it is difficult to measure capacity accurately over time. Second, it is difficult to make meaningful comparisons between terminals and assess the availability of excess capacity to users.

The remainder of this chapter will therefore provide a brief overview of throughput and detail terminal ownership, usage arrangements and plans for expansion. In most cases petrol flows are contained within the state or territory in which the terminals are located. Consequently, this chapter presents information from a state/territory perspective.⁵

3.2.1 Terminal throughput and growth

Terminals can be used to store petrol and other oil-based products.⁶ Chart 3.1 illustrates that the proportion of petrol as a percentage of total oil-based product exhibits significant variability between states. This is largely driven by differences in the prevalence of non-petrol intensive primary industries.

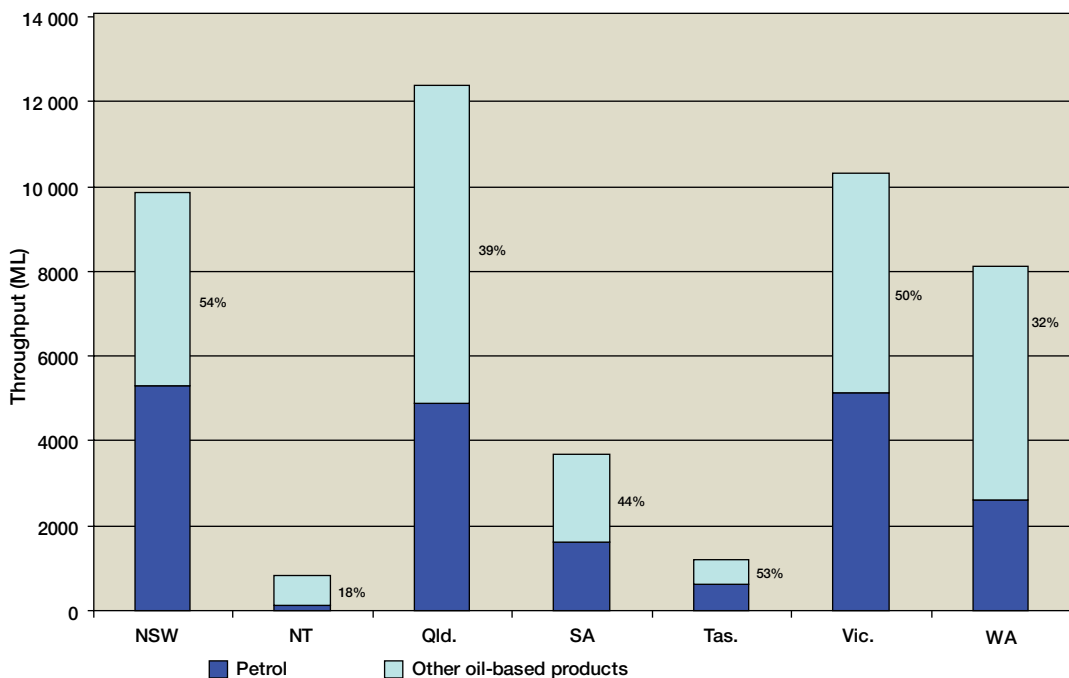
3 *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol*, December 2007, p. 199.

4 *ibid.*, p. 200.

5 The Australian Capital Territory has no import terminals.

6 Other oil-based products are primarily diesel but include LPG, aviation fuels, industrial and marine fuels, heating oil, fuel-oil, lubricating oils, greases, basestocks and bitumen.

Chart 3.1 Oil-based product terminal throughput: 2007–08



Source: Information provided by the companies.

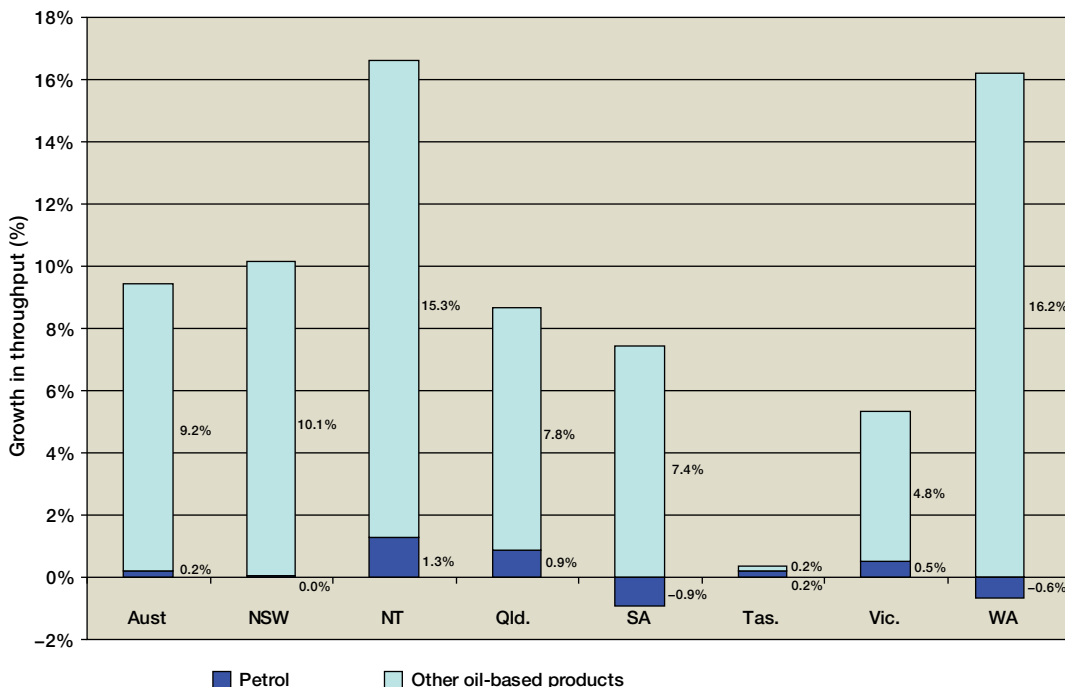
In New South Wales, Tasmania and Victoria, petrol represented about half of total terminal throughput. The proportion of petrol throughput was lower in the other states and in the Northern Territory, largely reflecting their greater proportion of diesel-intensive primary industries. In South Australia, petrol represented 44 per cent of total oil-based product throughput; in Queensland, 39 per cent; in Western Australia, 32 per cent; while the lowest percentage—18 per cent—was in the Northern Territory.

Chart 3.1 also shows a significant level of variability in throughput by state, with Queensland recording by far the highest throughput of oil-based products (12 396 ML). This was well above Victoria (10 295 ML) and New South Wales (9847 ML). The Northern Territory (823 ML) and Tasmania (1190 ML) had the lowest volumes of throughput.

The relatively high throughputs in Queensland and Western Australia are because of the presence of terminals located at a number of ports around the coast. Petrol and other oil-based products are transported by ship from refineries in Brisbane and Perth to these other terminals, giving rise to a degree of double handling. By contrast, oil products in New South Wales and Victoria tend to move by road and rail to their final destinations without passing through a second terminal.

Chart 3.2 below illustrates the growth in throughput between 2006–07 and 2007–08.

Chart 3.2 Growth in oil-based product terminal throughput: 2006–07 to 2007–08



Source: Information provided by the companies.

It is worthwhile noting that growth in non-petrol oil products is the major source of growth in throughput in each state. While capacity expansion may be necessary, this may cause additional capacity to be taken up by other oil-based products, thus limiting the extent to which additional capacity is available for use by independent petrol importers.

3.3 Terminal use and ownership

This section identifies import terminals in each state and territory, their ownership arrangements and their associated infrastructure, including a summary of the expansion planned in each state. The connections between refineries and import terminals, along with their sources of crude oil and/or petrol, are represented in the schematics of major oil flows by state and territory in section 3.5. These diagrams also show methods of distribution from the facilities. Unless specified, no other companies have reserved tank space at these terminals, although they may use them under buy-sell or other arrangements.

3.3.1 New South Wales

New South Wales has nine terminals capable of receiving imports, five of which are in Sydney.⁷

In 2007–08 over 80 per cent of petrol throughput in New South Wales was by refiner–marketers using terminals either owned directly by them or as part of a JV with another refiner–marketer. There was also petrol throughput by refiner–marketers using the terminals of other refiner–marketers. The remainder was accounted for by refiner–marketers putting petrol through an independently owned terminal; this figure is expected to increase over the next few years with expansion planned at independently owned terminals.

Table 3.1 Refiner–marketer owned terminals: New South Wales

Terminal	Owner(s)	Operator	Type of arrangement	Features
Banksmeadow (Sydney)	Caltex	Caltex	Own use and hosting	Receives imports and petrol by pipeline from Kurnell. Petrol is distributed by pipeline to Silverwater or loaded into trucks for distribution to retailers. A pipeline from Vopak’s Botany terminal is due for completion in 2009.
Parramatta (Sydney)	Shell	Shell	Used by Shell and BP	Parramatta terminal is attached by pipeline to Shell’s Clyde refinery. Distribution is by truck and rail gantries. A (Shell-owned) pipeline connects the refinery to the Silverwater terminal, where it links with the Caltex pipeline to the Newcastle terminals (see below). The refinery receives imported products, including crude oil and petrol, by pipeline from Gore Bay terminal, which has no other distribution facilities.
Silverwater (Sydney)	Caltex/ Mobil (SMP) ⁸	Mobil	JV terminal	Receives petrol through pipelines from both Banksmeadow terminal and Clyde refinery. Petrol is distributed through trucks and via pipeline to the Newcastle terminals.
Botany (Sydney)	Mobil	Mobil	Was used by Mobil and BP	This terminal ceased receiving petrol in 2007–08, now holding only aviation fuel. These companies now use Vopak’s Port Botany terminal.
Newcastle	BP	BP	Own use	All three terminals receive petrol through pipelines running from both Sydney refineries and most of the import terminals. None of these terminals has port access in Newcastle.
Newcastle	Caltex	Caltex	Own use	
Newcastle	Shell	Shell	Used by Shell and Mobil	

⁷ Shell’s Gore Bay terminal operates exclusively as port access for the company’s Clyde refinery and associated Parramatta terminal; therefore, these two terminals are counted as one.

⁸ Sydney Metropolitan Pipeline (SMP) is a Caltex/Mobil JV.

Table 3.2 Independently owned terminals: New South Wales

Terminal	Owner(s)	Operator	Type of arrangement	Features
Botany (Sydney)	Vopak	Vopak	Shell has an access contract to use tanks* (excluding jet fuel and Vpower) with an option to extend for up to 30 years. Both BP and Mobil have co-mingled long term lease agreements for this terminal.	Receives petrol by ship and has truck gantries for distribution. Significant capacity expansion has been announced by Vopak at this terminal. A pipeline to Banksmeadow terminal is due for completion in 2009.
Port Kembla	Manildra Park	Manildra Park	Not currently used for petrol imports.	This terminal could be used to import petrol, though it is currently only used to provide ships in the port with marine diesel. It has also received petrol by truck from Sydney terminals and refineries.

* Storage by Shell of jet fuel and Vpower is not on a co-mingled basis; storage of other fuels at this terminal is co-mingled.

Planned expansion

Most significantly, Vopak has announced planned expansions that will almost double tank capacity at its Botany terminal. The additional capacity at Botany should be completed by mid-2010. Marstel has also announced that it is planning a new terminal in Newcastle with the capacity to accept both domestic supply and imports. This is particularly significant as none of the existing Newcastle ports currently has direct port access.

Importantly, information provided by the companies indicates that most of this new capacity is anticipating future demand rather than being based on firm contracts, and so could be taken up by independent importers.

3.3.2 Northern Territory

The Northern Territory's major import terminal is in Darwin and is owned by Vopak. No terminals are owned by the refiner–marketers. The Vopak terminal is used by the four refiner–marketers only to store and distribute imported fuel. The Northern Territory is the only state or territory where no refiner–marketer uses their own major import terminal. The Northern Territory has two other relatively small import terminals (not included in table 3.3) at Gove and on Groote Eylandt. These accept imported fuel for mining and other uses in the immediate local areas.⁹

Table 3.3 Independently owned terminals: Northern Territory

Terminal	Owner(s)	Operator	Type of arrangement	Features
Darwin	Vopak	Vopak	Third party terminal used by BP, Caltex, Mobil and Shell who use this terminal under a long-term access contract.	Used to store and distribute imported petrol.

Planned expansion

Vopak has plans to marginally increase capacity at this terminal by 2010.

⁹ Australian Marine Oil Spill Centre Pty Ltd, 'AMOSPlan: Australian Industry Cooperative Oil Spill Response Arrangements', January 2008.

3.3.3 Queensland

Queensland has 15 terminals that are able to accept imports. Four are in Brisbane, 10 are along the coast from Gladstone to Cairns, and there is one at Weipa in the Gulf of Carpentaria.

Over 80 per cent of petrol throughput in Queensland during 2007–08 was by refiner-marketers using their own or jointly-owned facilities. The remainder was use by a refiner–marketer of another refiner–marketers terminal and an independent wholesaler using their own terminal.

Table 3.4 Refiner–marketer owned terminals: Queensland

Terminal	Owner(s)	Operator	Type of arrangement	Features
Lytton (Brisbane)	Caltex	Caltex	Own use	Supplied by pipeline from Caltex’s Lytton refinery and receives a small volume of imported petrol. Distribution is by truck gantry.
Pinkenba (Brisbane)	Shell	Shell	Own use	Receives petrol through pipelines from Lytton and Bulwer Island refineries and imports by ship. Distribution is by road using truck gantry. Shell is currently undertaking expansion to increase both the terminal’s capacity and throughput.
Whinstanes (Brisbane)	BP	BP	Used by BP and Mobil	Supplied by pipelines from BP’s Bulwer Island and Caltex’s Lytton refineries. Imports are received indirectly and BP imports a small amount of petrol through its refinery. Distribution is by truck gantry.
Cairns	BP	BP	Own use and Mobil under a hosting agreement	These terminals are supplied by ship, primarily from the Brisbane refineries (BP’s Bulwer Island refinery or Caltex’s Lytton refinery). All have the capacity to receive imports, as some did in 2007–08.
Cairns	Caltex	Caltex	Own use	
Cairns	Shell	Shell	Own use	
Gladstone	BP/Shell	BP	JV terminal	
Gladstone	Caltex/Mobil	Caltex	JV terminal	
Mackay	BP	BP	Own use and Mobil under a hosting agreement	
Mackay	Caltex	Caltex	Own use	
Mackay	Shell	Shell	Own use	
Townsville	BP	BP	Own use and Mobil under a hosting agreement	
Townsville	Caltex/Shell	Shell	Joint terminal	

Table 3.5 Independently owned terminals: Queensland

Terminal	Owner(s)	Operator	Type of arrangement	Features
Eagle Farm (Brisbane)	Neumann	Neumann	Own use	Petrol is received by pipeline from the two Brisbane refineries and by direct port access for imports. This terminal has significant capacity constraints. An additional tank is planned to increase overall fuel storage capacity by 15 per cent and the construction of a 4 km pipeline to a deepwater port to facilitate imports.
Weipa	Rio Tinto	BP	Own use (plus hosting others)	Throughput of petrol in 2007–08 was negligible; it primarily receives diesel.

Planned expansion

Planned expansion over the next two years is well below that of New South Wales. Some refiner–marketers have suggested that expansion would not be financially viable at some regional terminals, even where there are capacity restraints.

The major capacity expansion in Queensland will be the restoration of the former Mobil terminals at Port Alma (Rockhampton) and Bundaberg by a new entrant in Queensland, Marstel. By mid-to late-2009, Marstel expects to be ready to receive imports from domestic and international sources.

As outlined in tables 3.4 and 3.5, both Shell and Neumann are currently undertaking expansion of their Pinkenba and Eagle Farm terminals. Shell’s expansion plans at Pinkenba involve modifications to the gantry and an additional fuel storage tank (expected to be completed by 2009). Neumann’s expansion plans include construction of a new pipeline downstream from its Eagle Farm facility to facilitate the use of larger ships and an additional diesel tank to relieve storage pressure on existing tanks and free up capacity for petrol (both stages are expected to be completed by 2010).

3.3.4 South Australia

South Australia has six import terminals¹⁰; four of these are in Adelaide and the remainder in Port Lincoln. Almost all of the petrol throughput in import terminals was by refiner–marketers using their own or jointly-owned terminals in 2007–08. The balance was a refiner–marketer using another refiner–marketer’s terminal. South Australia is the only state or territory in which all existing terminals are owned by refiner–marketers.

Table 3.6 Refiner–marketer owned terminals: South Australia

Terminal	Owner(s)	Operator	Type of arrangement	Features
Birkenhead (Adelaide)	Caltex	Caltex	Own use	Receives petrol by ship from Mobil’s Altona refinery and Singapore. Distribution by truck gantry.
Birkenhead (Adelaide)	Mobil	Mobil	Own use with Shell access under a joint terminal arrangement	Receives petrol by ship primarily from Singapore and Shell’s Geelong refinery. Has also received from Mobil’s Altona refinery. Distribution by truck and rail gantries.
Largs North (Adelaide)	BP	BP	Own use	Receives supplies by ship, almost entirely from BP’s Kwinana refinery.
Port Lincoln	Caltex	Caltex	Own use	These terminals are supplied by ship and distributed by truck.
Port Lincoln	Shell	Shell	Own use and Mobil under a hosting agreement	
Port Stanvac (Adelaide)	Mobil	Mobil	Not used	This storage terminal is attached to Mobil’s Port Stanvac refinery. In 2003, Mobil ‘mothballed’ this refinery and neither the refinery nor the associated storage are currently being utilised.

Planned expansion

Significant expansion is planned in South Australia during the next two years, at least partly as a result of the high growth in throughput of diesel in 2007–08. In particular, BP is proposing to expand storage capacity at Adelaide, and Caltex is examining storage expansion possibilities.

¹⁰ This figure includes the terminal facilities associated with the ‘mothballed’ Port Stanvac facility.

3.3.5 Tasmania

Tasmania has five import terminals: two in Hobart and the remainder along the northern coast.

In 2007–08 the vast bulk (over 90 per cent) of petrol put through import terminals was by refiner–marketers using a directly or jointly owned facility. There were small percentages accounted for by refiner–marketers using another refiner–marketer’s terminal and an independent wholesaler using an independently owned terminal.

Table 3.7 Refiner–marketer owned terminals: Tasmania

Terminal	Owner(s)	Operator	Type of arrangement	Features
Hobart	BP	BP	Own use and Mobil under a hosting agreement	Supplied by ship.
Hobart	Caltex	Caltex	Own use and Shell under a hosting agreement	Supplied by ship from Shell’s Geelong refinery.
Burnie	BP	BP	Own use and Mobil and Caltex under hosting agreements	Supplied by ship, including from Kwinana refinery.
Devonport	Shell	Shell	Own use and Caltex under a hosting agreement	Supplied by ship.

Table 3.8 Independently owned terminals: Tasmania

Terminal	Owner(s)	Operator	Type of arrangement	Features
Bell Bay	Marstel	Marstel	Rental	Has been used by an independent wholesaler to import, though has significant spare capacity and may provide an opportunity for another company to bring petrol into Tasmania.

Planned expansion

Reflecting Tasmania’s low throughput growth in 2007–08 and low volumes, no expansion is planned for the next two years.

3.3.6 Victoria

Victoria has four import terminals, of which three are in Melbourne. In 2007–08 over 80 per cent of the petrol put through import terminals was by refiner–marketers using a directly or jointly owned facility. The rest of the state’s throughput was a refiner–marketer using another refiner–marketer’s terminal, along with an independent wholesaler using its own terminal.

Table 3.9 Refiner–marketer owned terminals: Victoria

Terminal	Owner(s)	Operator	Type of arrangement	Features
Newport	Shell	Shell	Own use	Receives petrol from the Geelong refinery by one-way pipeline. The pipeline then becomes two-way to connect with Caltex’s Newport and Mobil’s Yarraville terminals, continuing on to Holden Dock where imports can be received. It is also connected by pipeline to Mobil’s Altona refinery. Petrol is distributed by truck gantry.
Newport	Caltex	Caltex	Own use	Is adjacent to Shell’s Newport terminal and as noted above is connected by pipeline to the Geelong and Altona refineries, Shell’s and Mobil’s terminals and Holden Dock. Distribution is by truck gantry.
Yarraville	Mobil	Mobil	Own use with BP access under a joint terminal arrangement	Receives petrol from Mobil’s Yarraville refinery by pipeline and is also connected to the other terminals, Geelong refinery and Holden Dock (refer above). Has also received imports from Singapore. Petrol is distributed by truck gantry.

Table 3.10 Independently owned terminals: Victoria

Terminal	Owner(s)	Operator	Type of arrangement	Features
Hastings	United	United	Own use	United purchased this terminal from Trafigura in 2008. Receives petrol imports by ship and distribution is by truck gantry.

Planned expansion

Partly reflecting Victoria’s low throughput growth in 2007–08, little expansion is planned for the next two years with expansion plans limited to the conversion by Shell of a storage tank to unleaded storage to relieve capacity issues.

3.3.7 Western Australia

Western Australia has 15 import terminals, four in the Perth area and the remaining 11 spread along the coastline. All terminals primarily receive petrol from BP's Kwinana refinery, either by pipeline (Perth) or by truck/ship.

Over 80 per cent of petrol throughput was by refiner–marketers using their own or jointly owned terminals, with the remainder going through independently owned terminals in 2007–08.

Table 3.11 Refiner-marketer owned terminals: Western Australia

Terminal	Owner(s)	Operator	Type of arrangement	Features
Kewdale (Perth)	BP	BP	Own use and Mobil and Caltex under hosting agreements	Receives petrol by pipeline from the Kwinana refinery. Used for imports when there are supply problems. Distribution is by truck and rail gantries.
Fremantle (Perth)	Shell/Caltex	Shell	Joint terminal	Receives petrol through a pipeline from the Kwinana refinery and distributes by road using a truck gantry.
Albany	Caltex	Caltex	Own use	These terminals are supplied by ship primarily from the Kwinana refinery. All have the capacity to receive imports, as some did in 2007–08.
Broome	BP	BP	Own use plus hosting arrangements	
Broome	Shell	Shell	Own use	
Cape Lambert	Rio Tinto	BP	Own use plus hosting arrangements	
Dampier	Rio Tinto	BP	Own use plus hosting arrangements	
Esperance	BP	BP	Own use	
Esperance	Shell	Shell	Own use and Caltex under a hosting arrangement	
Geraldton	BP	BP	Own use and Caltex under a hosting arrangement	
Geraldton	Shell	Shell	Own use	
Port Hedland	BP	BP	Own use and Mobil under a hosting agreement	
Port Hedland	Caltex	Caltex	Own use	

Table 3.12 Independently owned terminals: Western Australia

Terminal	Owner(s)	Operator	Type of arrangement	Features
Kwinana (Perth)	Gull	Terminals West	Used by Gull	Stores and distributes petrol and diesel that is sourced from the local refinery or imported.
Kwinana (Perth)	Coogee Chemicals	Coogee Chemicals	Currently leased to Mobil.	Supplied by ship, distributed by truck.

Planned expansion

Consistent with this state's high growth in throughput in 2007–08, significant expansion is planned for the next two years. BP is proposing to expand capacity at Port Hedland. Coogee Chemicals has a tank conversion underway (expected to be completed by the end of 2008) and Caltex is undertaking an expansion study for its Port Hedland facility.

3.3.8 Conclusions

The refiner–marketers own and use the majority of terminal facilities in each state and, according to information provided by the companies, capacity at most of the independently owned terminals is tied up under long-term arrangements by the refiner–marketers. Significantly, South Australia has no independently owned terminals.

The ownership and use arrangements outlined above highlight the difficulties independent importers face when securing access to petrol storage terminals.

There is some prospect that capacity expansion planned by terminal operators Marstel, Vopak and Neumann will increase the ability of independent importers to access terminal facilities suitable for petrol imports in the medium term, particularly in New South Wales.

In addition there is limited ownership and use of import terminals by independent wholesalers such as United in Victoria, Neumann in Queensland and Gull in Western Australia.

3.4 Barriers to overcoming capacity constraints

Information provided by the refiner–marketers along with other terminal owners and users indicates most of Australia's import terminals face capacity constraints. Recent high growth in some states is likely to further compound this problem. As outlined above, some expansion has been planned to alleviate capacity issues in anticipation of future demand. Additionally, increased throughput may be able to be achieved by improving surrounding infrastructure.

It has been submitted to the ACCC, however, that many import terminals face barriers to expansion. For example, BP indicated that its import terminals are limited by some or all of the following constraints on increasing throughput (it is likely that similar barriers would be faced by other owners and operators):

- insufficient tanks because of geographic, climatic or local constraints
- inadequate port facilities
- pipelines being too small

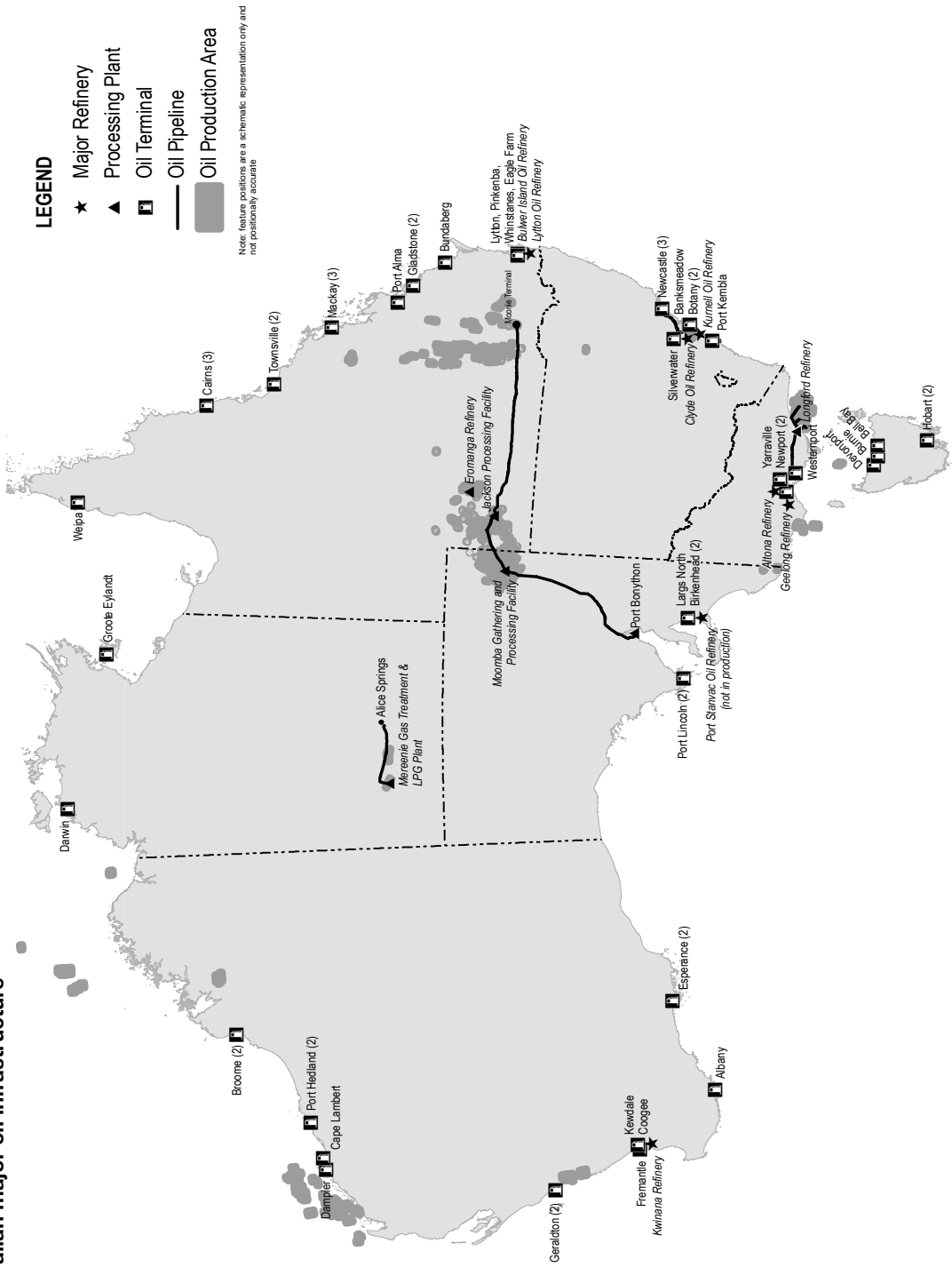
- availability of ships
- insufficient refining production capabilities
- the number of economically optimal cargoes a terminal can receive
- labour constraints, especially in Western Australia
- distribution constraints, including the lack of land to expand truck gantries
- constraints outside the company's control, such as berth availability.

These barriers to expansion are likely to compound the difficulties faced by independent importers in gaining access to terminals.

3.5 National map and state/territory schematics of major oil flows

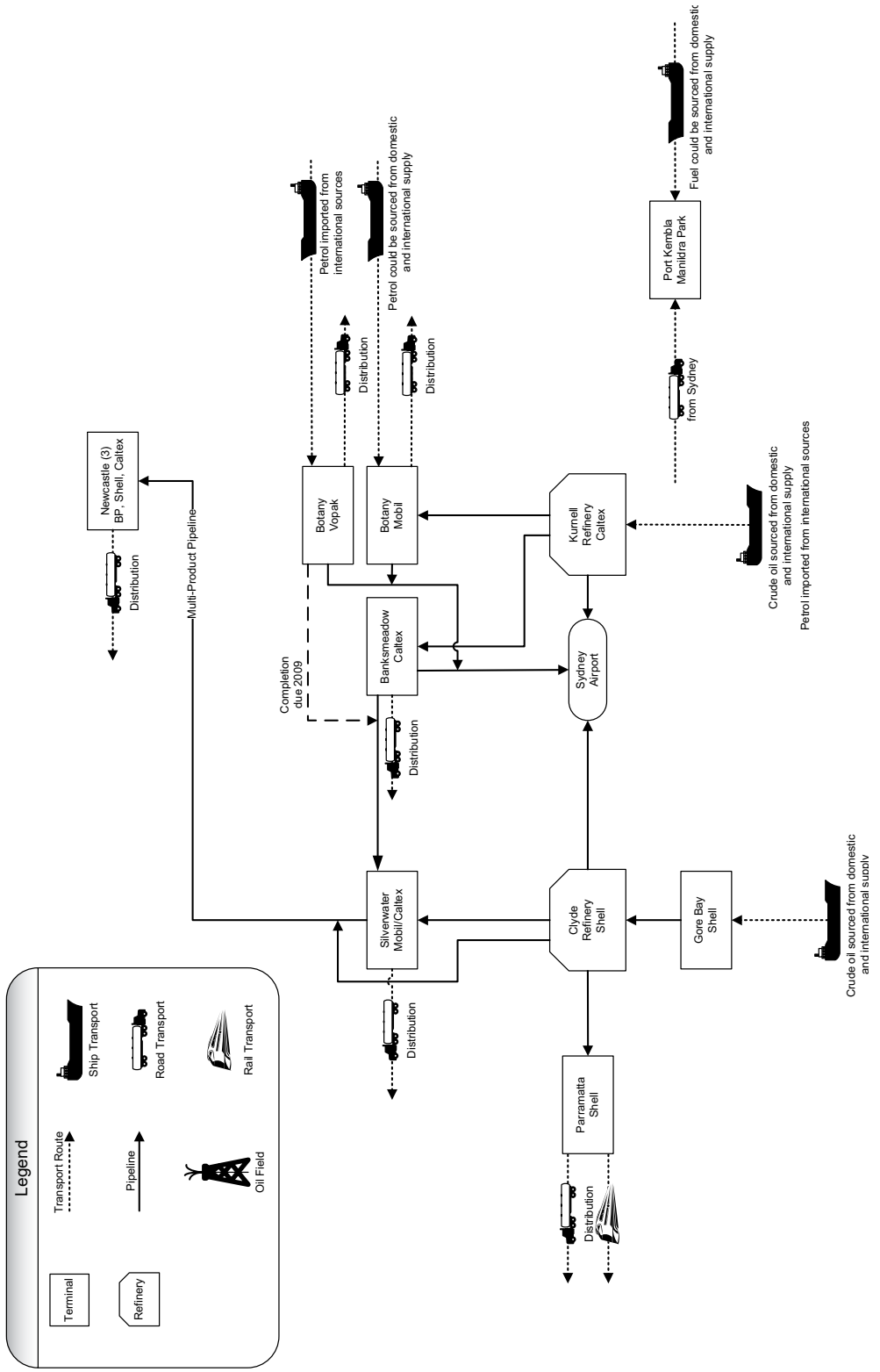
The import terminals operating in each state have been set out in the following schematics, which show flows of petroleum products to and from import terminals by name and ownership (see charts 3.3 to 3.7).

Chart 3.3 Australian major oil infrastructure



Source: Prepared by RLMS Pty Ltd for the ACCC.

Chart 3.4 New South Wales oil flow schematic



Source: Prepared by PLIMS Pty Ltd for the ACCC.

Chart 3.5 Queensland oil flow schematic

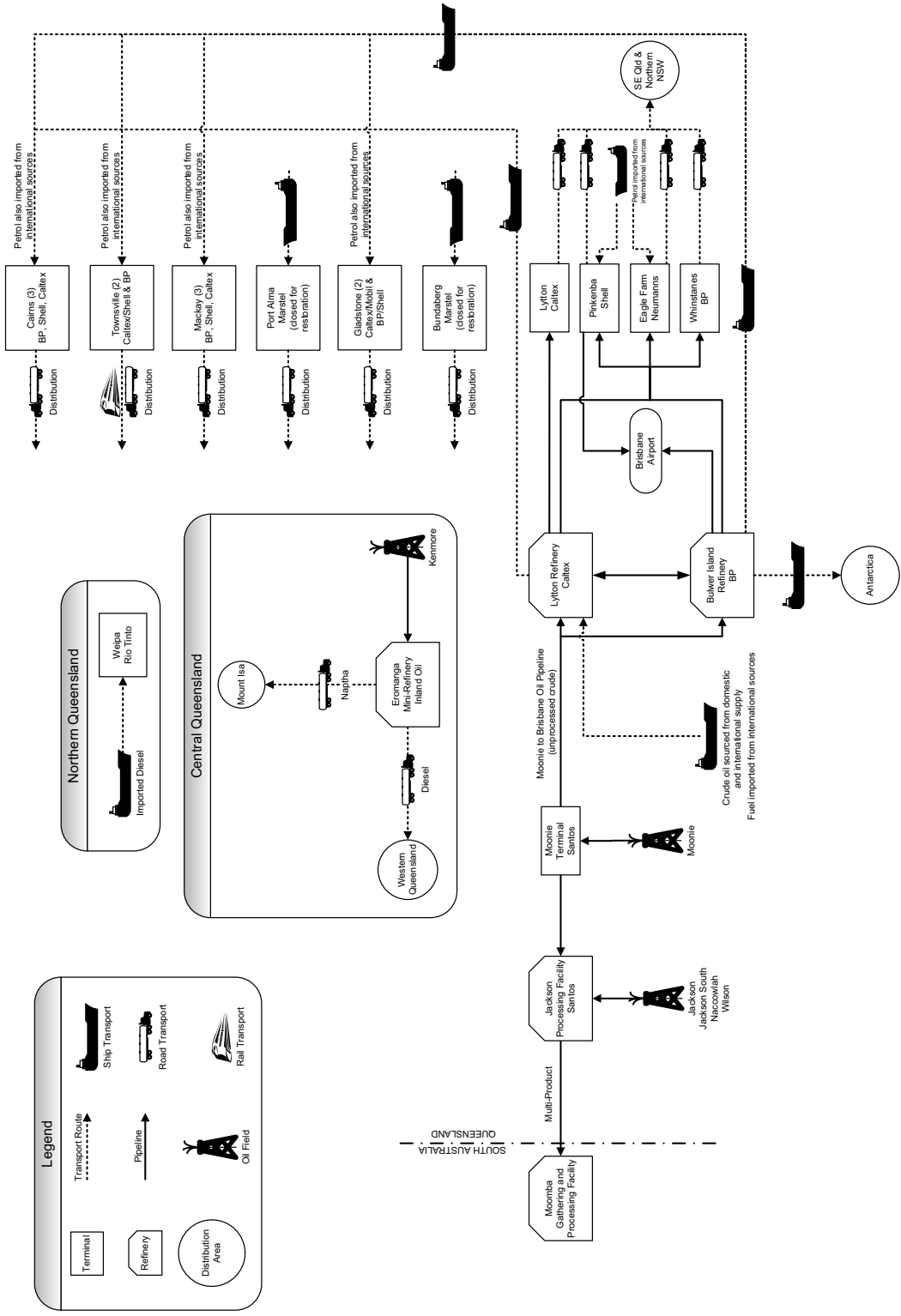
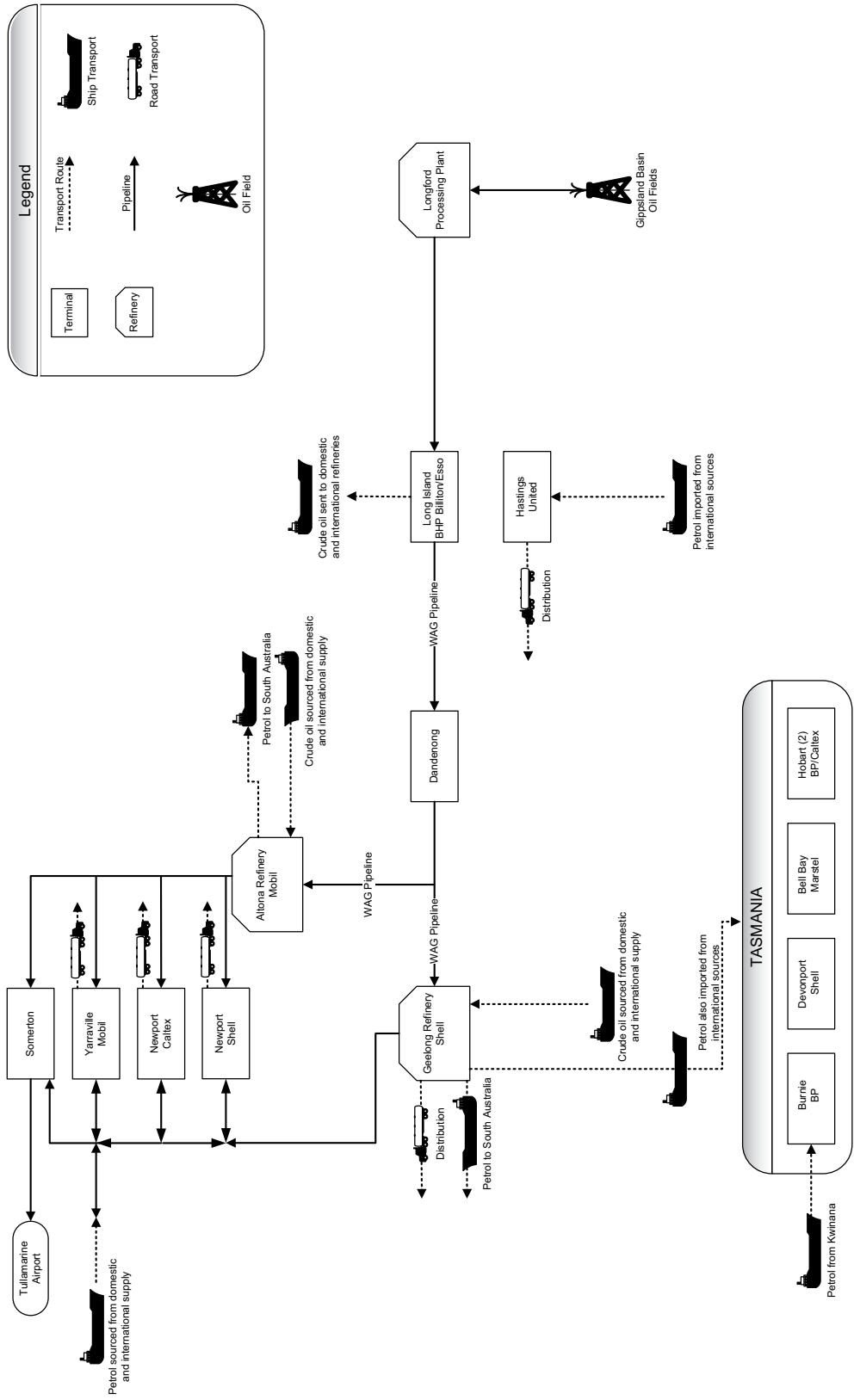
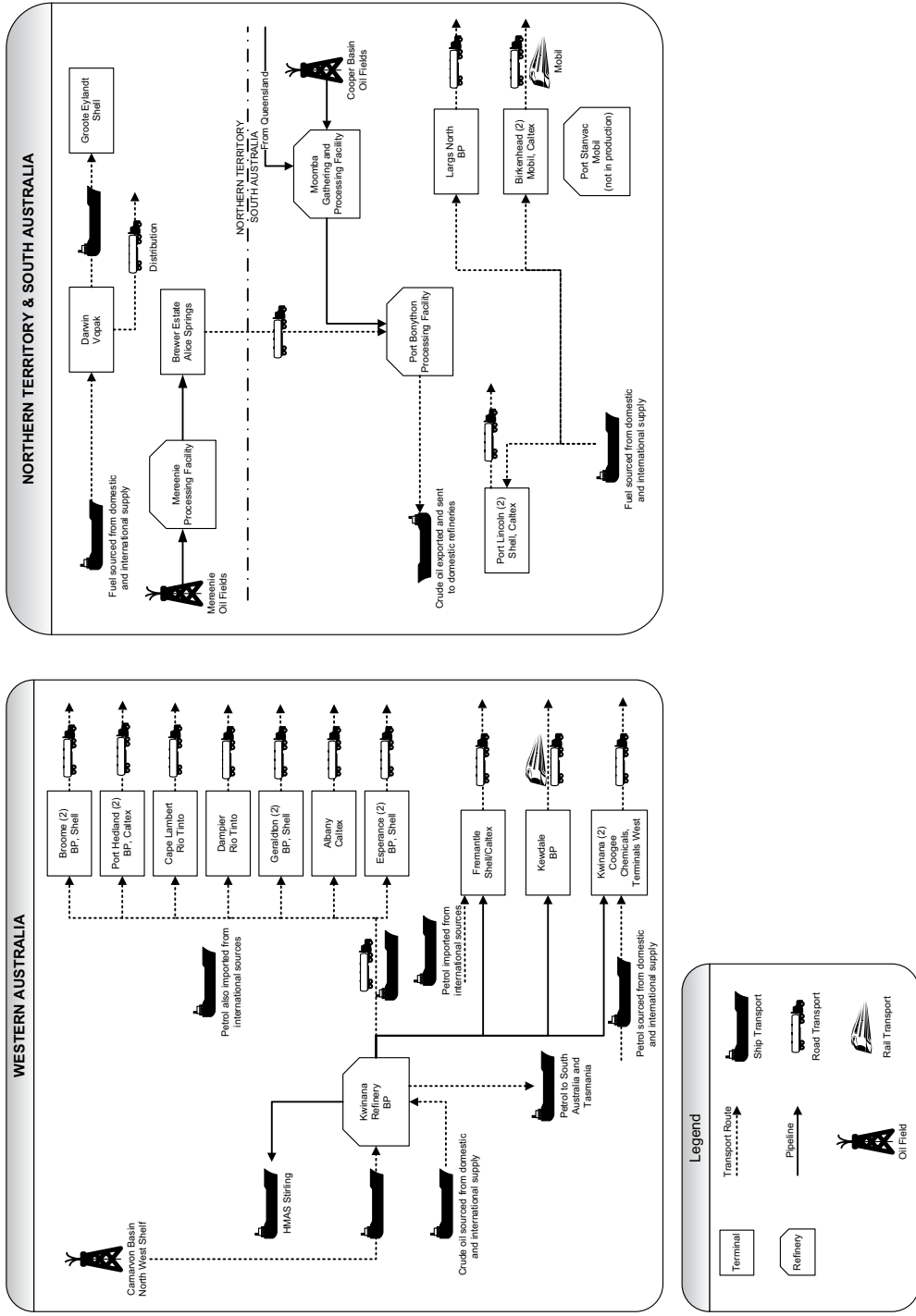


Chart 3.6 Victoria and Tasmania oil flow schematic



Source: Prepared by RLMS Pty Ltd for the ACCC

Chart 3.7 Western Australia, Northern Territory and South Australia oil flow schematic



Source: Prepared by RLMS Pty Ltd for the ACCC

4 The role of import parity pricing

4.1 Introduction

Petrol sold in Australia is either refined from crude oil at Australian refineries or imported as petrol from overseas refineries or blending operations. In the case of domestically refined petrol, the cost of the final product is determined by the actual cost of the crude oil (including transporting it to the refinery) plus the cost of running the refinery (including capital costs) and the additional cost of any additives or quality enhancements.

It is to be expected that an internationally traded commodity such as petrol would be priced at world prices. If prices in Australia were significantly lower than international prices, domestic producers would have an incentive to withhold product from the domestic market to obtain the higher world price, leading to shortages in Australia. This is irrespective of how much petrol is produced locally and how much is imported.

While it is expected that the price of petrol in Australia is determined by the price of imports, in the Australian petrol market domestic prices are set using a formulaic approach on the basis of a notional import price, known as the import parity price (IPP).

The principle and practice of the IPP has been well established in Australia, and was discussed in detail in the 2007 ACCC petrol inquiry report. The IPP is based on the notional cost of imported equivalent product rather than the actual cost of domestic refining or even the actual cost of imports. In other words, the 'IPP is the cost that would apply if the same product was bought at the nearest market and then transported to Australia and delivered into local storage facilities'.¹

As the IPP is a major feature of price setting of wholesale and, ultimately, retail prices in the Australian petrol market, this chapter describes its use and derivation in the petroleum industry. It considers in detail the various components of the IPP used in determining (notional) prices.

4.2 The role of the IPP in the Australian petrol market

Even though the IPP is a notional value rather than an actual cost, it plays an extremely important role in the Australian petrol market. It:

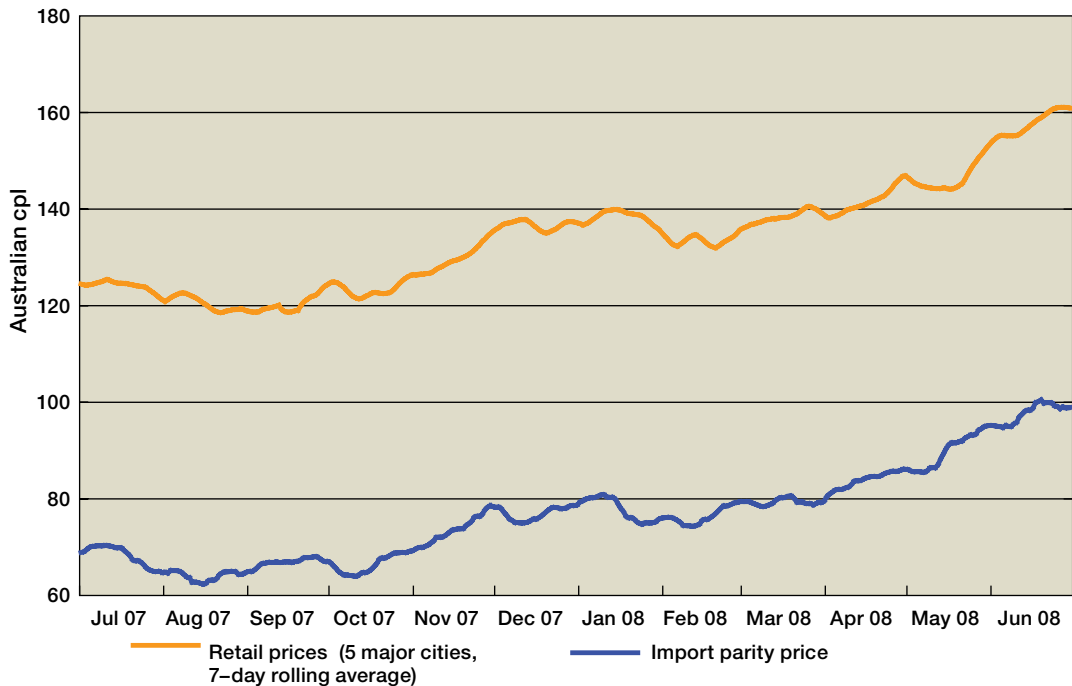
- forms the basis of domestic refinery and imported prices and is the basis for the terminal gate price (the cash price for a bulk spot purchase from a wholesaler's terminal)
- is used as the basis for the buy-sell arrangements between the four refiner–marketers
- is used as a benchmark.

This is evident from chart 4.1 below, which illustrates the relative movements of the IPP and retail unleaded petrol prices in 2007–08.²

1 BP submission (p. 11) referenced in ACCC, *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol*, December 2007, p. 91.

2 The difference in the level of prices between the retail price and the IPP is due to net taxes (excise, GST and subsidies), other minor charges, and wholesale and retail margins.

Chart 4.1 Daily IPP and retail unleaded petrol prices in the five major metropolitan cities: 2007–08



Source: ACCC calculations based on information provided by the refiner–marketers and Informed Sources.

In its 2007 petrol inquiry report, the ACCC concluded that the IPP-based pricing formula used by domestic refiner–marketers is enabling them to operate profitably in the Australian petroleum market.³

4.3 Components of the IPP benchmark

The use of a price benchmark based on unleaded petrol spot sales in Singapore is a longstanding practice in Australia that goes back to 1990. Singapore is the most relevant market for the Australian petrol industry due to the high volume of petrol traded in the market and its close proximity to Australia. In 2007–08 around 93 per cent of automotive gasoline imported into Australia came from Singapore.

Although the details of the pricing formula used to derive domestic prices vary marginally between the refiner–marketers, the IPP-based formula for petrol can generally be expressed as⁴:

$$\text{IPP} = \text{a benchmark refinery price (e.g. MOPS 95)} + \text{quality premium} + \text{shipping costs} + \text{wharfage} + \text{insurance and loss}$$

The benchmark used in the Australian IPP-based formula for unleaded petrol is the Platts quote for a particular specification of petrol, usually Mogas 95 unleaded. The benchmark price is known as MOPS 95 or mean of Platts Singapore for Mogas 95 unleaded (in the rest of this chapter, it is simply referred to as MOPS unless otherwise stated). This is the average daily spot price for petrol of particular specifications traded in Singapore.

³ 2007 ACCC petrol inquiry report, p. 10.

⁴ *ibid.*, p. 91.

In the 2007 ACCC petrol inquiry report, it was noted that MOPS represented around 92 per cent of the IPP. Using information provided by the refiner–marketers, the 2007–08 components of the IPP have been calculated in table 4.1 below. These refer to annual averages based on the five major metropolitan cities (i.e. Sydney, Melbourne, Brisbane, Adelaide and Perth).

The benchmark price (or MOPS) comprised about 93 per cent of the IPP in 2007–08. The fuel quality premiums and freight charges were the other main components of the IPP (representing around 4.7 cpl or 6.1 per cent of the IPP). The quality premium is priced in \$US and varies slightly from state to state and company to company, depending on minor state differences in petrol standards and the fuel quality premiums applied by the companies. Wharfage, insurance and loss charges, and other charges (such as terminal and pipeline fees) are relatively minor components of the IPP and were, on average, about 0.6 cpl in 2007–08 (about 0.8 per cent of the IPP).

Table 4.1 Components of the IPP, five major metropolitan cities: 2007–08 average

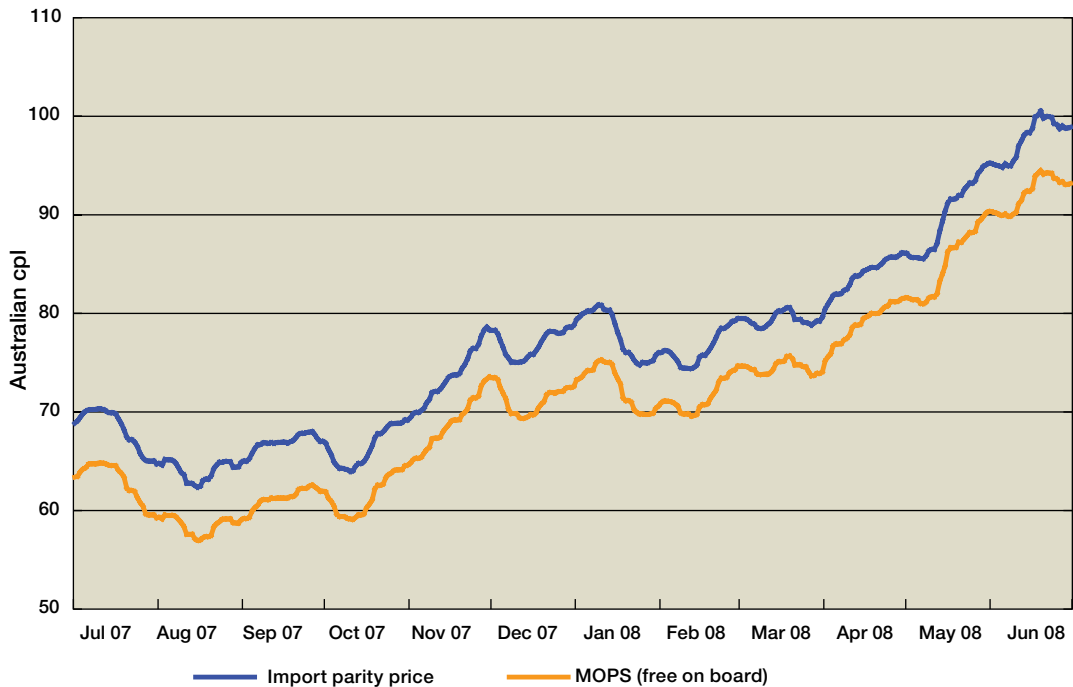
	\$US pb	\$A cpl	%
MOPS	101.98	71.90	93.11
Fuel Quality Premiums	2.84	2.00	2.60
Freight	3.84	2.71	3.51
Wharfage	0.30	0.21	0.27
Insurance and loss	0.44	0.31	0.40
Other charges	0.14	0.10	0.12
IPP	109.53	77.22	100.00

Source: ACCC calculations based on information provided by the refiner–marketers.

Note: Figures may not add up due to rounding.

Using the price information for the various components of the IPP, it is useful to consider how movements in the benchmark price, which is a free on board Singapore price, vary from movements in the IPP. These movements are illustrated in chart 4.2. During 2007–08, the price differential between the MOPS price and the IPP was relatively stable.

Chart 4.2 Price movements between MOPS and the IPP for the five major cities: 2007–08



Source: ACCC calculations based on information provided by the refiner–marketers.

In addition, table 4.2 provides monthly averages of the main components of the IPP and the \$A/\$US exchange rate in 2007–08. The main IPP components are further explored in the sections that follow.

Table 4.2 Monthly averages of the main components of the IPP in the five major metropolitan cities: 2007–08 average

	Exchange rate	MOPS	Fuel quality premiums	Freight	Wharfage	Insurance and loss	Other charges
	\$A per \$US	cpl	cpl	cpl	cpl	cpl	cpl
Jul. 2007	0.8605	62.92	2.08	2.99	0.21	0.27	0.10
Aug. 2007	0.8388	58.49	2.13	3.10	0.21	0.26	0.10
Sep. 2007	0.8313	61.27	2.15	3.04	0.21	0.27	0.10
Oct. 2007	0.8883	61.49	2.01	2.51	0.21	0.27	0.09
Nov. 2007	0.9039	68.80	1.98	2.12	0.21	0.29	0.09
Dec. 2007	0.8709	71.25	2.06	3.22	0.21	0.31	0.09
Jan. 2008	0.8758	72.49	2.05	2.99	0.21	0.31	0.10
Feb. 2008	0.8975	71.50	2.00	2.45	0.21	0.30	0.10
Mar. 2008	0.9261	74.46	1.94	2.54	0.21	0.32	0.10
Apr. 2008	0.9233	79.01	1.93	2.32	0.21	0.33	0.10
May 2008	0.9421	85.13	1.89	2.24	0.21	0.36	0.10
Jun. 2008	0.9488	92.20	1.88	3.05	0.21	0.39	0.10

Source: ACCC calculations based on information provided by the refiner–marketers.

4.3.1 The benchmark refinery price

The Platts assessed price for MOPS is a free on board price from Singapore and is quoted in \$US per barrel. The MOPS price, in Australian cpl, reflects movements in the \$US benchmark price as well as the exchange rate. During 2007–08, the \$A/\$US exchange rate was relatively strong, especially in the June quarter of 2008. This coincided with a period of record high increases in the \$US MOPS price. As such, increases in domestic petrol prices were partially offset by the stronger exchange rate.

4.3.2 Fuel quality premiums

Fuel standards in Australia are determined by Commonwealth and state regulations.⁵ Australian petrol standards do not exactly match the Platts Singapore MOPS specifications. In recent years, changes to the fuel standards in Australia included limits on the amount of olefins, methyl tertiary-butyl ether (MTBE), sulfur, aromatics and benzene in petrol.

The tighter Australian specifications generally mean that it is more expensive to refine and/or buy Australian grade petrol relative to the Platts Singapore benchmark price. Consequently, there is an additional ‘fuel quality premium’ added to the MOPS free on board price. Table 4.3 identifies the differences between the fuel quality premiums that apply in different states and the Northern Territory for regular unleaded petrol sold in Australia on the basis of information provided by the refiner–marketers.

Table 4.3 Average quality premium for regular unleaded petrol 91 RON: January to June 2008 (\$US per barrel)

	NSW	Vic.	Qld.	SA	WA	Tas.	NT	All
Average of refiner–marketers	2.88	2.83	2.75	2.87	2.87	3.56	3.73	3.07
Range	0.35	0.25	0.48	0.53	0.43	1.25	1.29	0.65

Source: ACCC calculations based on information provided by the refiner–marketers.

The fuel premiums also vary by the grade of unleaded petrol. Table 4.4 illustrates the fuel quality premiums for unleaded petrol 91 RON and unleaded petrol 95 RON in \$US per barrel. The average \$US quality premium for unleaded petrol 91 RON has marginally fallen from 1 January 2008 in Queensland, Western Australia and the Northern Territory. There were slight increases or no changes in the other states.

Using the information provided by the refiner–marketers, the average \$US fuel quality premium for unleaded petrol 95 RON was also calculated. Some companies use MOPS 97 as the base price for 95 RON, while others derive a wholesale price for unleaded petrol 95 RON using MOPS 95. For comparative purposes, the calculations for the fuel quality premium for unleaded petrol 95 RON in table 4.4 are based on MOPS 95. The average fuel quality premium for 95 RON has increased between 0.7 and \$US1.1 per barrel from 1 January 2008 in all states.

⁵ See 2007 ACCC petrol inquiry report, pp. 81–4.

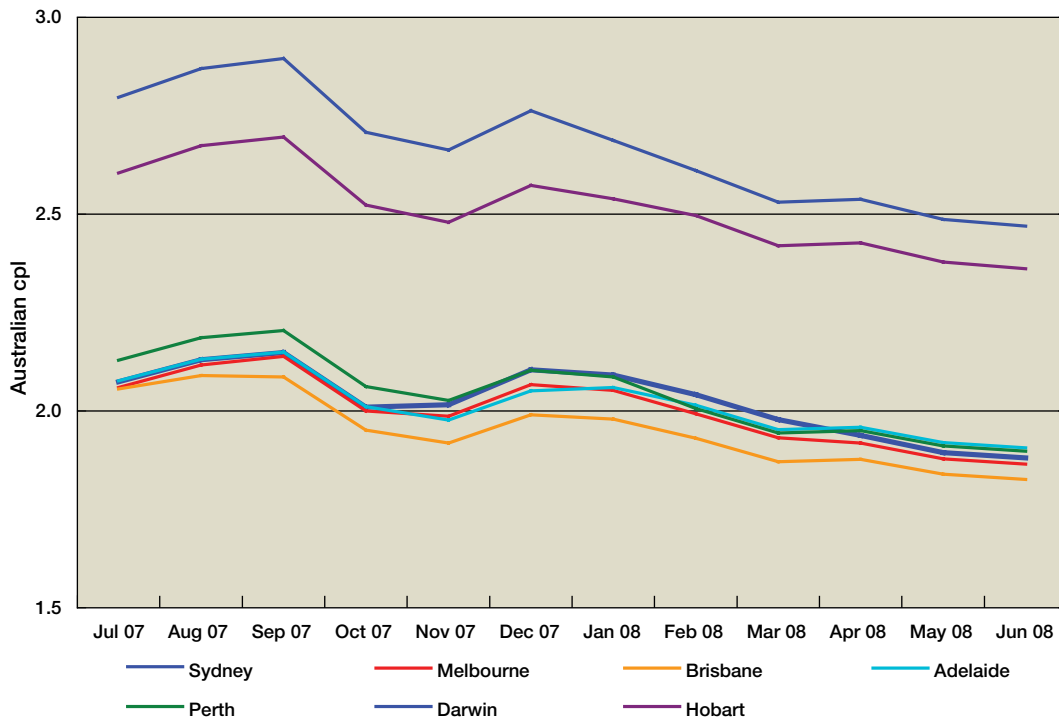
Table 4.4 Quality premiums by grade of unleaded petrol (\$US per barrel) for the states and the Northern Territory in 2007 and 2008

State	Period	Product	
		91 RON	95 RON
New South Wales	2007 average	2.86	8.70
	2008 average	2.88	9.79
	Change (\$US pb)	0.02	1.10
Victoria	2007 average	2.83	8.12
	2008 average	2.83	8.79
	Change (\$US pb)	0.00	0.67
Queensland	2007 average	2.77	8.57
	2008 average	2.75	9.62
	Change (\$US pb)	-0.02	1.04
South Australia	2007 average	2.84	8.64
	2008 average	2.87	9.70
	Change (\$US pb)	0.03	1.06
Western Australia	2007 average	2.91	8.72
	2008 average	2.87	9.60
	Change (\$US pb)	-0.04	0.88
Tasmania	2007 average	3.56	9.26
	2008 average	3.56	10.29
	Change (\$US pb)	0.00	1.04
Northern Territory	2007 average	3.83	9.66
	2008 average	3.73	10.60
	Change (\$US pb)	-0.10	0.94

Source: ACCC calculations based on information provided by the refiner–marketers.

Average monthly movements in the quality premiums for unleaded petrol 91 RON during 2007–08 (in Australian cpl) for each of the state and Northern Territory capital cities are provided in chart 4.3. Darwin and Hobart had the highest fuel quality premiums for unleaded petrol 91 RON.

Chart 4.3 Average monthly fuel quality premiums of unleaded petrol 91 RON in each state capital city and Darwin (cpl) in 2007–08



Source: ACCC calculations based on information provided by the refiner–marketers.

In 2007–08 the average fuel quality premiums (for unleaded 91 RON) in the five largest metropolitan cities, based on the four refiner–marketers, was about \$US2.8 per barrel (or 2.0 cpl). It was the lowest in June 2008, at 1.88 cpl, coinciding with the highest monthly average exchange rate for 2007–08.

This suggests that the exchange rate is an important consideration in terms of the fuel quality premium component of the IPP. That is, a weaker exchange rate (which was the case in the period from July 2008 to October 2008) would lead to an increase in the price of the fuel quality premium in Australian currency (other things being equal). As such, fluctuations in the exchange rate can lead to changes in the IPP independent of movements in the \$US benchmark price.

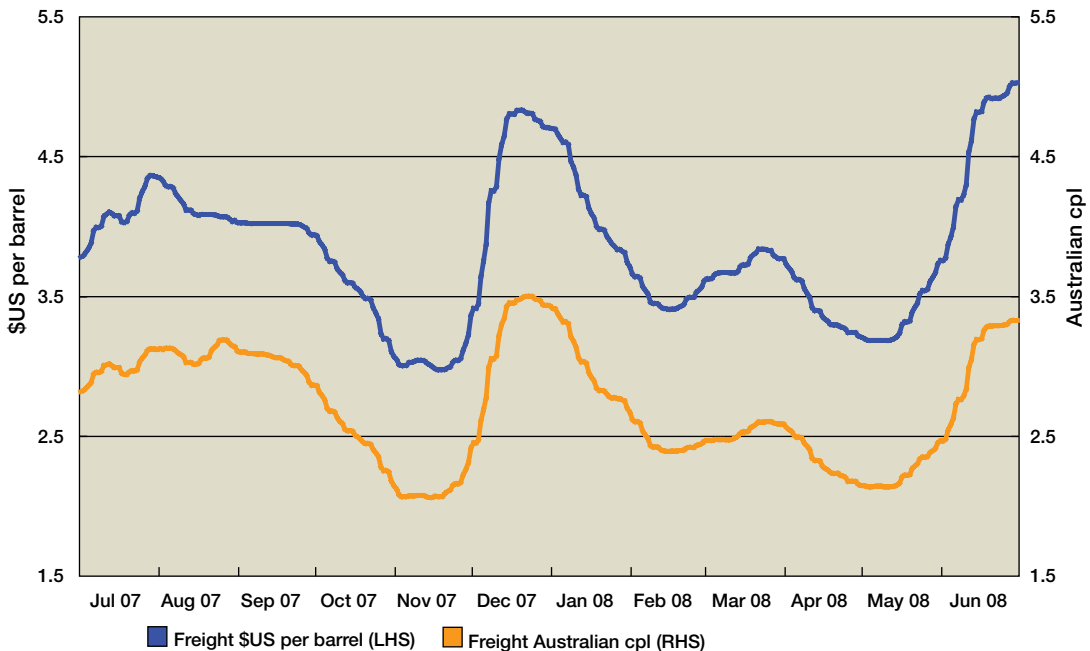
4.3.3 Freight costs

As the MOPS price is a free on board price, freight costs between Singapore and relevant discharge ports in Australia are included in the IPP.

The freight component in the IPP is calculated by applying a daily variable percentage to a fixed charge (both priced in \$US). The fixed charge is determined annually with reference to a benchmark shipping rate (based on the Worldscale benchmark) for a journey from Singapore to a relevant port in Australia. These rates are usually based on a standard ship size and contractual conditions for a specified voyage. Platts publishes a daily assessment of freight rates for a 30 000 tonne vessel from Singapore to Australia.

In 2007–08 assessed freight charges from Singapore to Australia, based on an average of the five largest metropolitan cities using information provided by the refiner–marketers, varied between \$US3 and \$US5 per barrel or between 2.1 and 3.5 Australian cpl (chart 4.4). Assessed freight rates were relatively higher in December 2007 and June 2008.

Chart 4.4 Freight rates from Singapore to Australia based on an average of the five major metropolitan cities: 2007–08



Source: ACCC calculations based on information provided by the refiner–marketers.

In addition to the impact of the exchange rate on domestically denominated freight charges, market conditions in the shipping industry, including the global economy in general, are also an influence. As such, changes to both freight rates and the exchange rate influence the notional IPP used by the petroleum industry, independent of movements in the \$US benchmark price.

4.3.4 Wharfage costs, and insurance and loss charges

An allowance for insurance and loss is also included in the refiner–marketers' IPP-based pricing formula. This is usually expressed as a small percentage (generally less than half a percentage point) of the \$US benchmark price plus freight. The average percentage used by the refiner–marketers in 2007–08 was 0.41 per cent, which equates to \$US0.44 per barrel or 0.31 Australian cpl.

Wharfage charges were around 0.2 cpl in 2007–08 for the five major metropolitan cities, based on data provided from the refiner–marketers.

4.4 Issues surrounding the IPP

While MOPS 95 is the standard octane rating benchmark for imported unleaded petrol, this benchmark is used to set prices in Australia for regular unleaded 91 RON.⁶ In this regard, there may be a question about the appropriateness of the specific Platts benchmark used in the IPP for unleaded petrol. It has been suggested that MOPS 92 rather than MOPS 95 may be the appropriate benchmark for regular unleaded petrol. This is particularly important as liquidity in the Singapore spot market and volumes sold in general in the Asia-Pacific are greater for MOPS 92 than for MOPS 95.

As part of an overall assessment of the current IPP benchmark, the ACCC is interested in determining whether the IPP benchmark and its components based on the Singapore market remain appropriate as the basis for determining the prices for unleaded petrol sold in the Australian market. To this extent, the ACCC has sought an independent consultancy, to carry out an assessment which is expected to commence in the first half of 2009.

⁶ See 2007 ACCC petrol inquiry report, pp. 82–3.

5 Monitoring of wholesale prices

5.1 Introduction

This chapter describes and analyses the way petrol prices are determined at the wholesale level in Australia.¹ The key mechanism that influences petrol prices in the wholesale market is the use of import parity pricing, which was discussed in the previous chapter. The import parity price (IPP) is the basis for determining wholesale prices through buy–sell arrangements between the refiner–marketers, forms the basis for pricing domestically refined or imported petrol and is the method used in determining published terminal gate prices (TGPs).²

5.2 Supply into wholesale markets

To understand price setting in the wholesale market, it is necessary to understand the way that refined product is supplied into the wholesale sector. There are four main types of wholesale transactions:

- Product acquired by the wholesaling business of a refiner–marketer from its refining business and/or imports (e.g. Mobil refines petrol at its refinery and then acts as the wholesaler for that product).
- Product acquired by refiner–marketers through buy–sell arrangements (e.g. Shell purchases petrol refined in a BP refinery under a buy–sell arrangement).
- Product acquired by independent wholesalers from refiner–marketers (e.g. Neumann purchases fuel either refined in a Caltex refinery or imported by Caltex).
- Product acquired by independent wholesalers from overseas (e.g. United imports refined petrol from Singapore).

5.3 Determination of prices in the wholesale market

Wholesale prices are determined in a fairly similar way across the refiner–marketers. The primary building block of all wholesale prices is the IPP. In this section, the IPP is first compared with the actual prices of imports of unleaded petrol to examine whether the IPP is an appropriate measure of actual prices. If the actual prices of imports are considerably below the IPP then the IPP would not be a suitable mechanism for determining wholesale prices. The IPP is then compared with the prices determined through the buy–sell arrangements of the refiner–marketers. Buy–sell prices significantly influence the prices at which refiner–marketers sell fuel to independent wholesalers and to their retail customers, including their own retail businesses. As such, any notable deviation from the IPP would also raise concerns about the suitability of the IPP in determining buy–sell prices.

1 The analysis in this chapter draws heavily on data provided by the refiner–marketers. In compiling the data, the ACCC encountered a number of challenges relating to the consistency of the data across companies and its interpretation. A degree of caution is therefore required in interpreting the results outlined in this chapter.

2 Under the Oilcode, wholesalers are required to make their TGPs publicly available each day on a website. In this chapter, published TGPs refer to the TGPs of BP, Caltex, Mobil and Shell (which are reported in aggregate on the Australian Institute of Petroleum website).

5.3.1 Comparison of the IPP and the price of imports of unleaded petrol

Imports account for around 20 per cent of unleaded petrol sold in Australia. The actual prices of these imports, which are mostly sourced from Singapore, are compared with the average IPP (the notional price reflecting the costs of importing fuel into Australia).

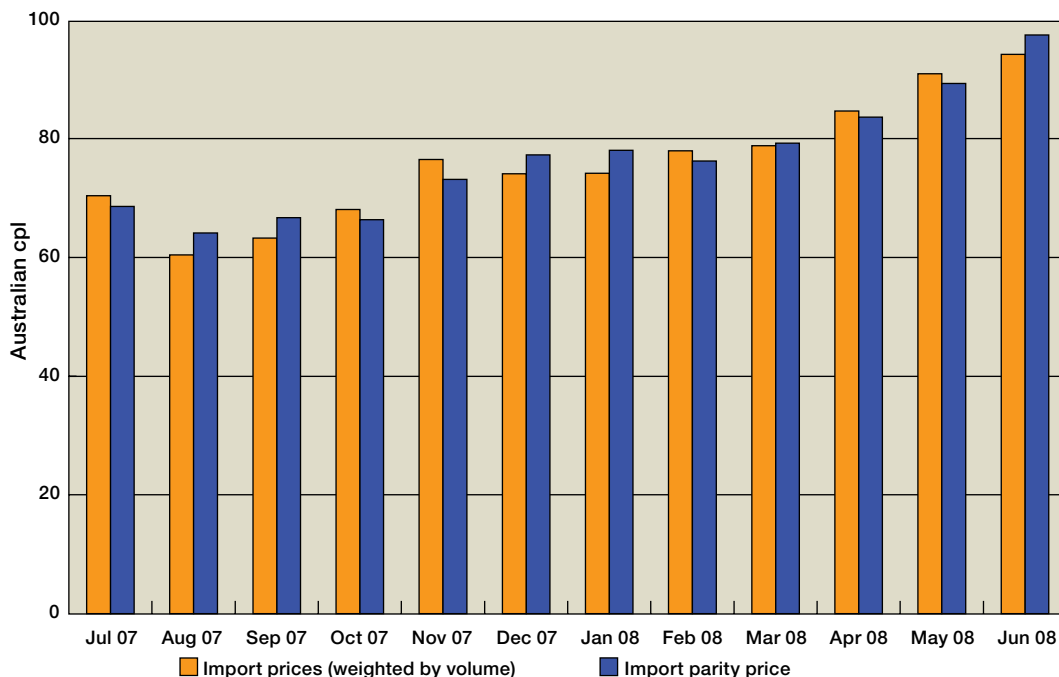
The ACCC examined data for around 250 transactions of imported unleaded petrol in 2007–08. The data included information on the volume of petrol imported, the total price paid, various contractual and delivery dates, and the exchange rate used for each shipment. The data was analysed and collated to derive a monthly average price of imported unleaded petrol, which was weighted by the volume of each transaction in the month.

The average monthly prices estimated for actual imports of petrol are compared with the average monthly IPPs for 2007–08 in chart 5.1 for the five major metropolitan cities (i.e. Sydney, Melbourne, Brisbane, Adelaide and Perth). Chart 5.1 shows that, in general, import prices appear to move in line with the IPP.

There are differences, however, between the IPP and the actual prices of imports between months, by as much as 4 cpl. These differences need to be considered cautiously. They partly reflect the varying methods of the composition and timing of both the IPP and the actual prices of imports data. The IPP is formula driven and reflects the most current market price of the Singapore benchmark (using rolling averages), although its construction differs slightly between the refiner–marketers. The price of actual imports can vary above or below this benchmark.

More importantly, the monthly average differences between the IPP and the actual price of imports may reflect timing differences. Specifically, imported petrol prices and other costs, on occasion, are agreed substantially prior to contract (and delivery) dates, which in periods of substantial movements in benchmark prices may account for the monthly differences between the IPP and the actual price of imports.

Chart 5.1 Average monthly IPP and actual price of imports of unleaded petrol in the five major metropolitan cities: 2007–08



Source: ACCC calculations based on information provided from the refiner–marketers.

5.3.2 Comparison of the IPP and buy–sell prices

The four refiner–marketers (BP, Caltex, Mobil and Shell) do not have refineries in every state and supply fuel nationwide through term contracts with competitor refiner–marketers, known as buy–sell arrangements. Prices at which buy–sell transactions take place are based on IPP-based formulas of the refiner–marketers and vary from location to location according to differences in freight, fuel quality specifications and other costs and margins.

Since a large proportion of petrol sold into the wholesale market is obtained through buy–sell arrangements, buy–sell prices play a significant role in setting wholesale prices. Other wholesale prices, such as notional transfer prices paid by the wholesale business of a refiner–marketer to its refinery business, and prices paid by independent wholesalers to a refiner–marketer are based on buy–sell prices.

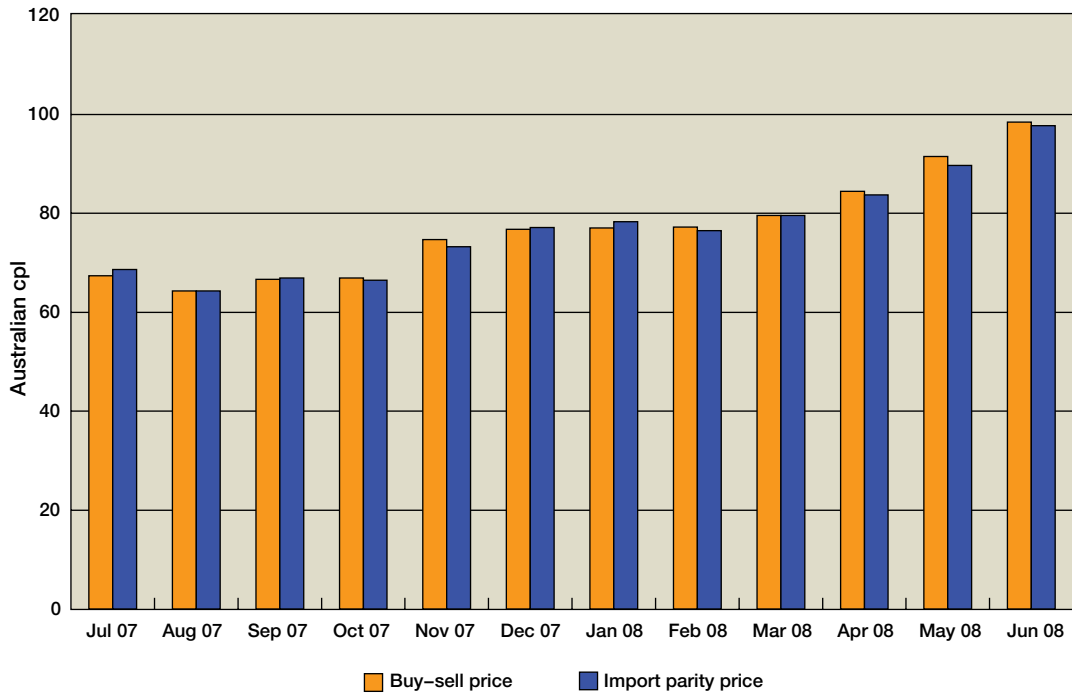
The ACCC noted in the 2007 petrol inquiry report that, according to the refiner–marketers, prices of fuel supplied into the Australian market are constrained by the cost of imports. As such, refiner–marketers consider that buy–sell prices should be based on the notional cost of imported equivalent product rather than the actual costs of domestic refining.³

Data provided by the refiner–marketers as part of this report indicate that buy–sell prices generally follow the IPP closely. Chart 5.2 illustrates monthly average buy–sell prices and the IPP for the five major metropolitan cities in 2007–08. There does not appear to be a significant mismatch between buy–sell prices and the IPP. That is, the prices negotiated by the refiner–marketers under buy–sell arrangements are at or are very close to notional import prices. On average in 2007–08, average

³ ACCC, *Petrol prices and Australian consumers: report of the ACCC inquiry into the price of unleaded petrol*, December 2007, p. 98.

buy–sell prices were around 0.2 cpl higher than average IPPs for the five major metropolitan cities.⁴ The differences between buy–sell prices and the IPP varied for each of the five major metropolitan cities for 2007–08. The differential varied from close to zero, to buy–sell prices being 0.5 cpl higher than the IPP.

Chart 5.2 Monthly average buy–sell prices and average IPPs in the five major metropolitan cities, unleaded petrol: 2007–08



Source: ACCC calculations based on information provided from the refiner–marketers.

Buy–sell prices are based on the IPP but may depart from the IPP where there may be incidental costs associated with moving refined product from the port to the selling company’s dispatch point.

In all cases, buy–sell prices are determined with reference to notional import prices (i.e. the IPP). No seller would be willing to sell under buy–sell arrangements at a price lower than the IPP (less the cost of freight to the nearest market) as this would create an incentive to sell fuel in the export market. No buyer would be willing to purchase fuel domestically at a price higher than the IPP since at such a price it would be cheaper to import fuel.

In principle, any evidence that buy–sell prices are consistently higher than the IPP (and actual prices of import) could suggest that the threat from imports may be insufficient to exert vital competitive pressures on domestic wholesale prices.

This is not to say that from time to time buy–sell prices could not be reasonably expected to diverge from the IPP. At various times, it may be possible that local factors, such as unexpected changes in demand and supply conditions, may place pressures on buy–sell prices that may not be manifest in the IPP in the short term. However, in general, the incentives to import (and export)

⁴ Differences in average monthly IPPs and buy–sell prices may also vary because of the method used in aggregating the data. Buy–sell prices refer to actual prices in each month as sourced from the companies. The formulas for IPPs used by the companies vary slightly and the monthly averages are derived using daily IPPs.

that arise when buy–sell prices diverge from the IPP should ensure that buy–sell prices converge towards the IPP in the medium to long term.

5.4 Wholesale prices

The discussion and analysis has so far focused on whether the IPP is consistent with the price of actual imports of unleaded petrol and how buy–sell prices compare with the IPP.

The analysis in this section examines actual wholesale prices for 2007–08. It then compares average wholesale prices with published TGPs to consider whether published TGPs are a good indicator of average wholesale prices. Average wholesale prices are also compared with the IPP.

5.4.1 Analysis of wholesale prices in 2007–08

The ACCC examined data on thousands of transactions by the refiner–marketers at the wholesale level. Based on the information provided, average daily wholesale prices were derived for each transaction—that is, for each sale of unleaded petrol by a wholesaler to other wholesalers, resellers and distributors, wholesaler owned operators, franchisees and other retailers. The aggregate results presented in this section refer to average prices for the five major metropolitan cities.

On any given day, there is a range of unleaded prices, which vary both within a single seller and between sellers in the wholesale market. This is largely a function of the nature of the setting of wholesale prices between wholesalers and purchasers of unleaded petrol. Some retailers, resellers and distributors purchase unleaded petrol under long-term contractual arrangements at the ‘terminal gate’. That is, deliveries of fuel, or other services, are not provided by the wholesaler. Often, retailers or wholesale distributors are able to purchase petrol at discount, subject to volumes of petrol purchased. These ‘terminal gate’ wholesale prices are normally at the lower end of the range of wholesale prices.

At the other end, some wholesalers provide services beyond the ‘terminal gate’. These may include delivery of fuel and the use of a refiner–marketer’s brand name, with some contractual arrangements that also include price support at the retail level. For example, the Caltex Reference Price to its franchisees includes a ‘marketing margin’ while Shell sales to Coles Express are based on TGP plus branding, delivery and price support when payable.⁵ Usually, these kinds of wholesale agreements result in unleaded petrol prices which are at the higher end of the range of wholesale prices.

However, the **effective** wholesale price for many of these arrangements is often less than the actual wholesale price paid. For example, Caltex publishes historical monthly averages by capital city of the TGP and the actual wholesale price paid directly by customers using the Caltex Reference Price. This actual wholesale price is calculated after any price support is paid and it is usually around the published Caltex TGP.⁶ Similarly, the **effective** wholesale price for purchases at the lower end of the range of wholesale prices is often greater than the actual price paid when the cost of freight and other charges are included.

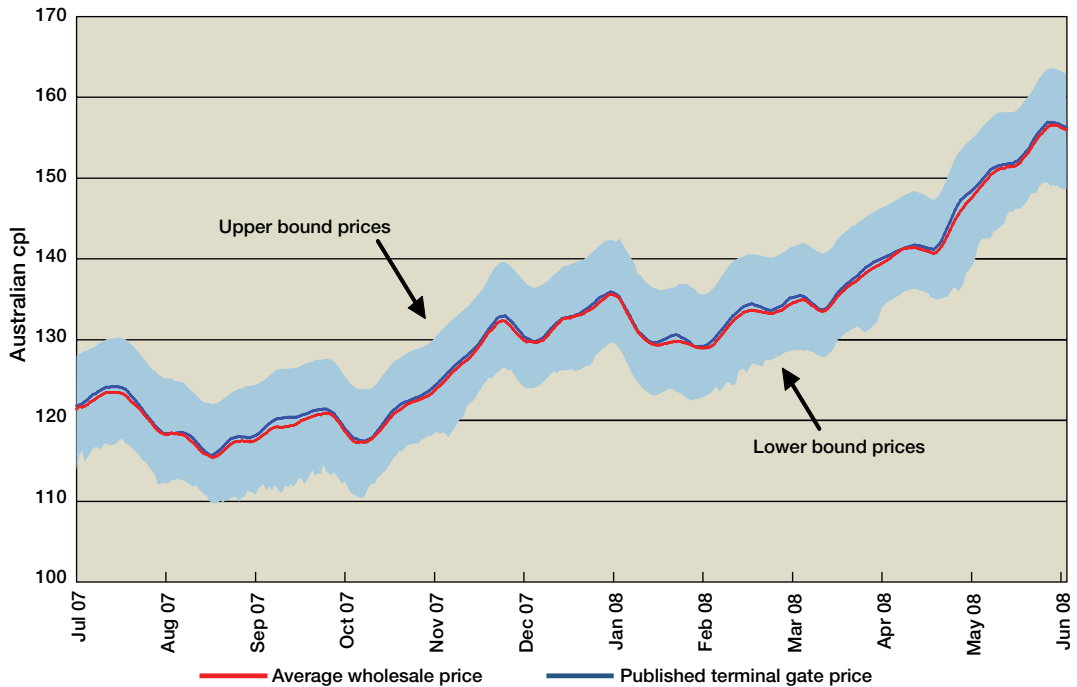
The analysis in this section is presented in terms of actual wholesale prices as derived from the wholesalers’ transactions. Chart 5.3 has been constructed using daily wholesale price data,

5 ACCC, *Petrol prices and Australian consumers: Report of the ACCC inquiry into the price of unleaded petrol*, December 2007, pp. 116–7.

6 For example, refer to data available at www.caltex.com.au/pricing_his.asp.

for 20 distinct company wholesale transactions in 2007–08. A range has been calculated for each day (shaded area in chart 5.3) based on the highest and lowest wholesale price paid by a purchaser of unleaded petrol across the five major metropolitan cities. This range was around 13 cpl on average in 2007–08.

Chart 5.3 Daily wholesale prices and published TGPs for the five major metropolitan cities, unleaded petrol: 2007–08 (using seven-day rolling averages)



Source: ACCC calculations based on information provided from the refiner–marketers and the Australian Institute of Petroleum (AIP).

An unweighted daily average wholesale price based on wholesale transactions as provided by the refiner–marketers has also been calculated for 2007–08. This is compared with TGPs. The comparison between average wholesale prices and average published TGPs provides a useful examination about the extent to which published TGPs differ from average wholesale prices. Based on the analysis undertaken, published TGPs broadly followed actual average wholesale prices in 2007–08. This suggests that published TGPs may be, on average, a reasonable approximation of the actual price of unleaded petrol sold at the wholesale level.⁷

As shown in table 5.1, in 2007–08 average wholesale prices were, on average, around 0.5 cpl lower than average published TGPs.

⁷ A number of points need to be borne in mind. The analysis was based on data provided by the four refiner–marketers and excludes published TGPs by other wholesalers. In addition, the estimated average wholesale price is an unweighted average which may vary from a volume weighted average wholesale price. Finally, the actual wholesale price may include charges for services other than petrol.

Table 5.1 Average wholesale prices and average published TGPs in the five major metropolitan cities, unleaded petrol: 2007–08 (based on seven-day rolling averages)

	Average wholesale prices cpl	Average TGPs cpl
Highest daily price	156.5	156.9
Lowest daily price	115.4	115.7
Range	41.1	41.2
Average price in 2007–08	130.5	131.0

Source: ACCC calculations based on information provided from the refiner–marketers and the AIP.

Average wholesale prices and average published TGPs for 2007–08 for the five major metropolitan cities, and the difference between the two, are summarised in table 5.2. Average wholesale prices were the lowest in Melbourne as were average published TGPs. Perth had the second lowest average wholesale prices and the highest average TGPs. Perth had the highest difference between average wholesale prices and average published TGPs (1.0 cpl). The difference between average wholesale prices and average TGPs was the lowest in Adelaide (0.2 cpl).

Table 5.2 Average wholesale prices and average published TGPs in the five major metropolitan cities, unleaded petrol: 2007–08

	Average wholesale prices cpl	Average TGPs cpl	Difference cpl
Sydney	131.0	131.3	.03
Melbourne	130.3	130.7	.04
Brisbane	130.7	131.2	.05
Adelaide	131.2	131.5	0.2
Perth	130.6	131.6	1.0

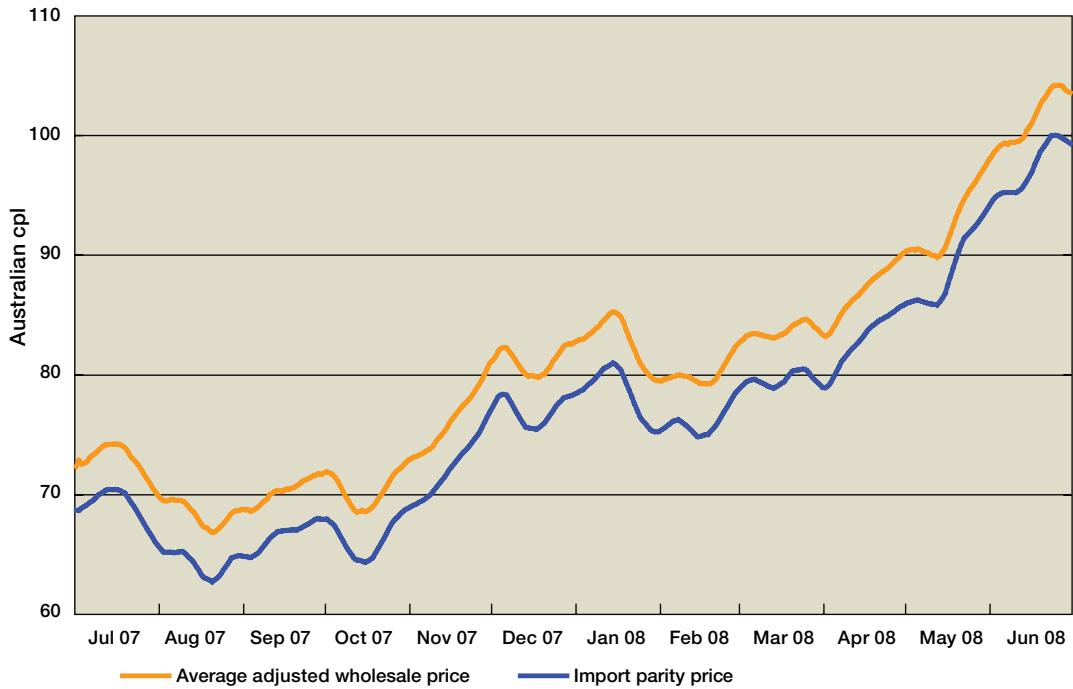
Source: ACCC calculations based on information provided from the refiner–marketers and the AIP.

Note: Figures may not add exactly because of rounding.

5.4.2 Comparison of average adjusted wholesale prices and the IPP

The average wholesale price, after adjusting for taxes (excise and GST), is compared with the average IPP in chart 5.4. On average, the difference between average adjusted wholesale prices and average IPPs was around 3.9 cpl in 2007–08. This difference is a broad and indicative measure of the wholesale margin for unleaded petrol.

Chart 5.4 Daily average adjusted wholesale prices and the average IPPs in the five major metropolitan cities, unleaded petrol: 2007–08 (based on seven-day rolling averages)



Source: ACCC calculations based on information provided from the refiner–marketers.

Table 5.3 illustrates the average adjusted wholesale price and the average IPP for 2007–08 for the five major metropolitan cities. On average, Melbourne had the lowest difference between the average adjusted wholesale price and the average IPP, at 3.4 cpl. Perth had the highest difference (4.6 cpl), followed by Adelaide (4.0 cpl).

Table 5.3 Average adjusted wholesale prices and average IPPs for the five major metropolitan cities, unleaded petrol: 2007–08

	IPP cpl	Adjusted wholesale price cpl	Difference cpl
Sydney	77.2	80.9	3.8
Melbourne	76.9	80.3	3.4
Brisbane	76.8	80.7	3.8
Adelaide	77.1	81.1	4.0
Perth	76.1	80.6	4.6

Source: ACCC calculations based on information provided from the refiner–marketers.

Note: Figures may not add exactly because of rounding.

6 Retail petrol price movements

6.1 Introduction

This chapter provides information on the level of, and movements in, retail unleaded petrol prices in Australia.¹ Data is provided for the five largest metropolitan cities, the three smaller capital cities and country towns.

It also compares retail unleaded petrol prices with retail diesel and automotive liquefied petroleum gas (LPG) prices in Australia, and with retail unleaded petrol prices in other OECD countries.

For most of the 2007–08 financial year there was a steady increase in unleaded petrol prices. Average retail unleaded petrol prices reached a peak in July 2008 and subsequently declined until the first half of November 2008.²

Compared with other OECD countries, Australia has relatively low retail unleaded petrol prices. This is mainly because of the comparatively lower taxes applied to unleaded petrol in Australia.

The ACCC monitors the price of E10 petrol and the price differential between E10 petrol and regular unleaded petrol. E10 petrol is unleaded petrol which includes 10 per cent ethanol. Data is provided on these prices for the period July 2007 to September 2008.

6.2 Retail unleaded petrol price movements from July 2007 to November 2008

This section provides information on the level of, and movements in, unleaded petrol prices in the period July 2007 to November 2008 for three broad categories of locations: the five largest metropolitan cities (that is, Sydney, Melbourne, Brisbane, Adelaide and Perth), the three smaller capital cities (that is, Canberra, Hobart and Darwin) and country towns.³

Chart 6.1 shows the monthly average retail unleaded petrol prices in these three categories over the period July 2007 to November 2008. The movement of prices in each of the categories was broadly similar during that time.

In July 2007 average monthly retail prices for unleaded petrol were 123.6 cents per litre (cpl) in the five largest metropolitan cities, 131.0 cpl in the smaller capital cities and 132.5 cpl in country towns. From August 2007 until July 2008 (with the exception of February 2008) there was a steady increase in prices in all three categories—they peaked in July 2008 at 158.6 cpl in the five largest metropolitan cities, at 167.8 cpl in the three smaller capital cities and 165.4 cpl in country towns. In the subsequent period to November 2008, average retail prices declined significantly—by 32.4 cpl in the five largest metropolitan cities, 30.2 cpl in the three smaller capital cities and 26.9 cpl in country towns.

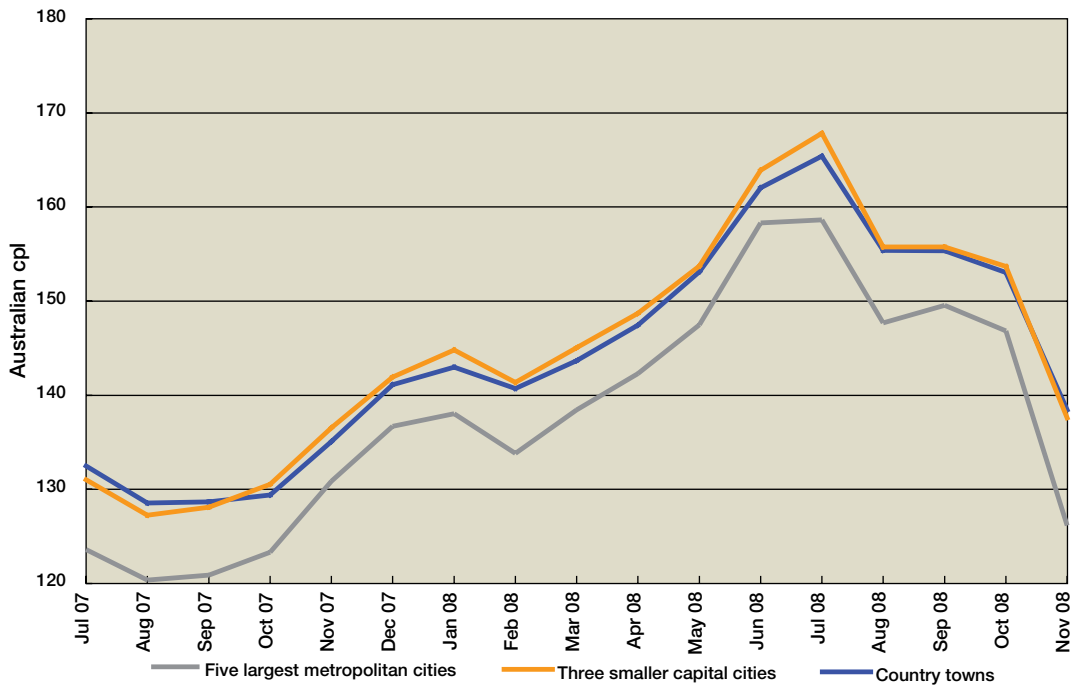
1 All references to the retail price of unleaded petrol in this report are to regular unleaded petrol unless otherwise specified.

2 All references to November 2008 data in chapters 5, 6 and 7 include the period 1 November to 17 November 2008.

3 The ACCC receives daily average retail unleaded petrol price data for all capital cities and around 110 country towns from Informed Sources Pty Ltd. Monthly averages for the three categories of locations have been derived by determining the monthly average for each city/town in each category and then determining the average of all cities/towns in each category. A list of the country towns for which Informed Sources provided data to the ACCC is provided in appendix B.

The net change in average monthly prices from the beginning of the period (July 2007) to the end of the period (November 2008) ranged from an increase of 2.1 per cent for the five major metropolitan cities to an increase of 5.0 per cent in the three smaller capital cities.

Chart 6.1 Average monthly retail unleaded petrol prices in the five largest metropolitan cities, the three smaller capital cities and country towns: July 2007 to November 2008



Source: ACCC and Informed Sources.

6.2.1 Summary of unleaded petrol prices in the three categories

Table 6.1 provides a summary of retail prices of unleaded petrol in the five largest metropolitan cities, the three smaller capital cities, and in country towns. It shows average retail prices of unleaded petrol in the 2007–08 financial year and over the longer period 1 July 2007 to 17 November 2008.

The average retail price for unleaded petrol in the period 1 July 2007 to 17 November 2008 was 138.1 cpl in the five largest metropolitan cities. In the three smaller capital cities and country towns, average prices were 7.0 cpl and 6.3 cpl higher, at 145.1 cpl and 144.4 cpl respectively.

Table 6.1 Average retail prices of unleaded petrol in financial year 2007–08 and the period 1 July 2007 to 17 November 2008 by category

	Five largest metropolitan cities cpl	Three smaller capital cities cpl	Country towns cpl
Average			
1 July 2007 to 30 June 2008	134.5	141.1	140.4
1 July 2007 to 17 November 2008	138.1	145.1	144.4

Source: ACCC and Informed Sources.

6.2.2 Five largest metropolitan cities

The average retail price for unleaded petrol across the five largest metropolitan cities in 2007–08 was 134.5 cpl. Over the longer period 1 July 2007 to 17 November 2008 the average retail price was 138.1 cpl.

Over the period July 2007 to June 2008, average monthly retail unleaded petrol prices in the five largest metropolitan cities increased by 34.7 cpl (about 28 per cent)—from 123.6 cpl in July 2007 to 158.3 cpl in June 2008. Prices continued to increase in July 2008 to a peak of 158.6 cpl and then subsequently declined to 126.2 cpl in November 2008.

The net change from July 2007 to November 2008 in average monthly retail prices for unleaded petrol in the five largest metropolitan cities was an increase of 2.6 cpl (about 2 per cent).

6.2.3 Three smaller capital cities

The average retail price for unleaded petrol across the three smaller capital cities in 2007–08 was 141.1 cpl, and it was 145.1 cpl over the longer period 1 July 2007 to 17 November 2008.

Over the period July 2007 to June 2008, average monthly retail unleaded petrol prices in the three smaller capital cities increased by 32.9 cpl (about 25 per cent)—from 131.0 cpl in July 2007 to 163.9 cpl in June 2008. Prices continued to increase in July 2008 to a peak of 167.8 cpl and then subsequently declined to 137.6 cpl in November 2008.

The net change from July 2007 to November 2008 in average monthly retail prices for unleaded petrol across the three smaller capital cities was an increase of 6.6 cpl (about 5 per cent).

6.2.4 Country towns

The average retail price for unleaded petrol in country towns in 2007–08 was 140.4 cpl, and it was 144.4 cpl over the longer period 1 July 2007 to 17 November 2008.

Over the period July 2007 to June 2008, average monthly retail unleaded petrol prices in country towns increased by 29.5 cpl (about 22 per cent)—from 132.5 cpl in July 2007 to 162.0 cpl in June 2008. Prices continued to increase in July 2008 to a peak of 165.4 cpl and then subsequently declined to 138.5 cpl in November 2008.

The net change from July 2007 to November 2008 in average monthly retail prices for unleaded petrol in country towns was an increase of 6.0 cpl (or about 5 per cent).

6.2.5 Summary of petrol prices by capital city

Average retail prices for unleaded petrol in 2007–08 and over the period 1 July 2007 to 17 November 2008 by capital city are shown in table 6.2.

Table 6.2 Average retail prices of unleaded petrol in financial year 2007–08 and the period 1 July 2007 to 17 November 2008 by capital city

	Syd. cpl	Mel. cpl	Bri. cpl	Ade. cpl	Per. cpl	Hob. cpl	Can. cpl	Dar. cpl
Average								
1 July 2007 to 30 June 2008	136.3	136.3	128.5	135.6	135.8	139.7	138.8	144.6
1 July 2007 to 17 November 2008	139.9	140.2	132.4	139.4	138.8	143.9	142.0	149.5

Source: ACCC and Informed Sources.

In 2007–08 Brisbane had the lowest average price at 128.5 cpl and Darwin had the highest average at 144.6 cpl. However, it needs to be remembered that there is a 9.2 cpl subsidy provided to petrol retailers in Queensland.⁴ A similar ranking occurred over the longer period 1 July 2007 to 17 November 2008.

In 2007–08, there was only a 0.7 cpl difference between average annual prices in the five largest metropolitan cities excluding Brisbane. Prices ranged from a low of 135.6 cpl in Adelaide to a high of 136.3 cpl in both Sydney and Melbourne.

6.3 Longer term petrol price movements

6.3.1 Summary of petrol prices from July 2002 to November 2008

Table 6.3 provides a summary of annual retail prices of unleaded petrol in the five largest metropolitan cities, three smaller capital cities and country towns for the six-year period from 2002–03 to 2007–08.

Large price rises were recorded in 2004–05, 2005–06 and 2007–08. Average unleaded petrol prices exceeded 100.0 cpl in all three locations for the first time in 2004–05. Between 2002–03 and 2007–08 average retail prices increased by about 52 per cent in the five largest metropolitan cities, by about 48 per cent in the three smaller capital cities and by about 49 per cent in country towns.

⁴ Some state governments provide subsidies at the retail level to reduce the price of petrol paid by consumers. All of the retail petrol prices in this report are inclusive of state subsidies. The state subsidies—and their possible effect on retail prices in 2007–08—are described in appendix C.

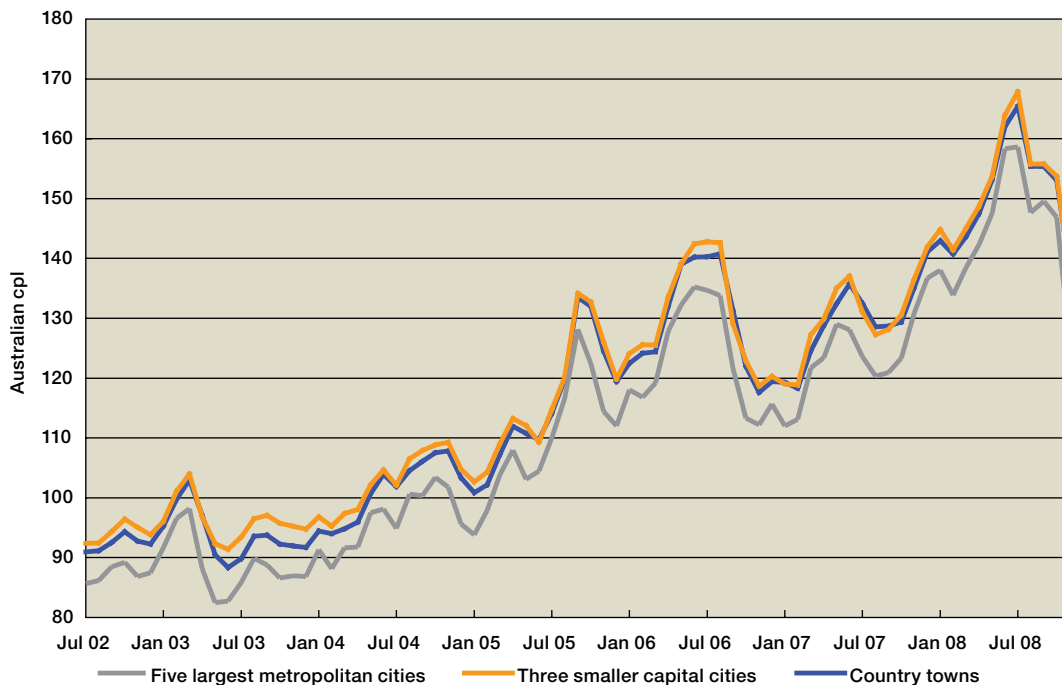
Table 6.3 Average annual retail prices of unleaded petrol in the five largest metropolitan cities, the three smaller capital cities and country towns: 2002–03 to 2007–08

	Five largest metropolitan cities cpl	Three smaller capital cities cpl	Country towns cpl
2002–03	88.6	95.5	94.0
2003–04	90.3	97.3	94.7
2004–05	100.6	107.5	106.1
2005–06	121.1	128.2	127.1
2006–07	121.5	128.6	127.5
2007–08	134.5	141.1	140.4

Source: ACCC and Informed Sources.

Chart 6.2 shows average monthly retail prices of unleaded petrol for the five largest metropolitan cities, three smaller capital cities and country towns from July 2002 to November 2008.

Chart 6.2 Average monthly unleaded petrol prices in the five largest metropolitan cities, the three smaller capital cities and country towns: July 2002 to November 2008



Source: ACCC and Informed Sources.

Average monthly retail petrol prices trended upwards over the period July 2002 to November 2008. However, there were periods of sharp volatility both upwards and downwards. Between July 2002 and November 2008 prices increased by about 47 per cent in the five largest metropolitan cities, about 49 per cent in the three other capital cities and about 52 per cent in country towns.

Overall, the price differential between the five largest metropolitan cities and the other locations has not increased over time. However, in the short term, the price differential between the five largest capital cities and the other locations tends to decrease during periods of steep price rises and increase during periods of steep price falls (reflecting the lags between movements in these series).

6.3.2 International factors influencing retail prices

Wholesale petrol prices in Australia are based on the regional benchmark price for the Asia-Pacific region, that is, the Singapore Mogas 95 Unleaded price. Retail prices are therefore directly influenced by international supply and demand pressures.

In the long run, supply and demand factors predominantly drive the price of crude oil and refined products.

- World consumption of oil and refined products has continued to increase over the past few years, driven by developing economies, particularly China.
- In comparison, world supply of crude oil has largely stagnated since 2004.

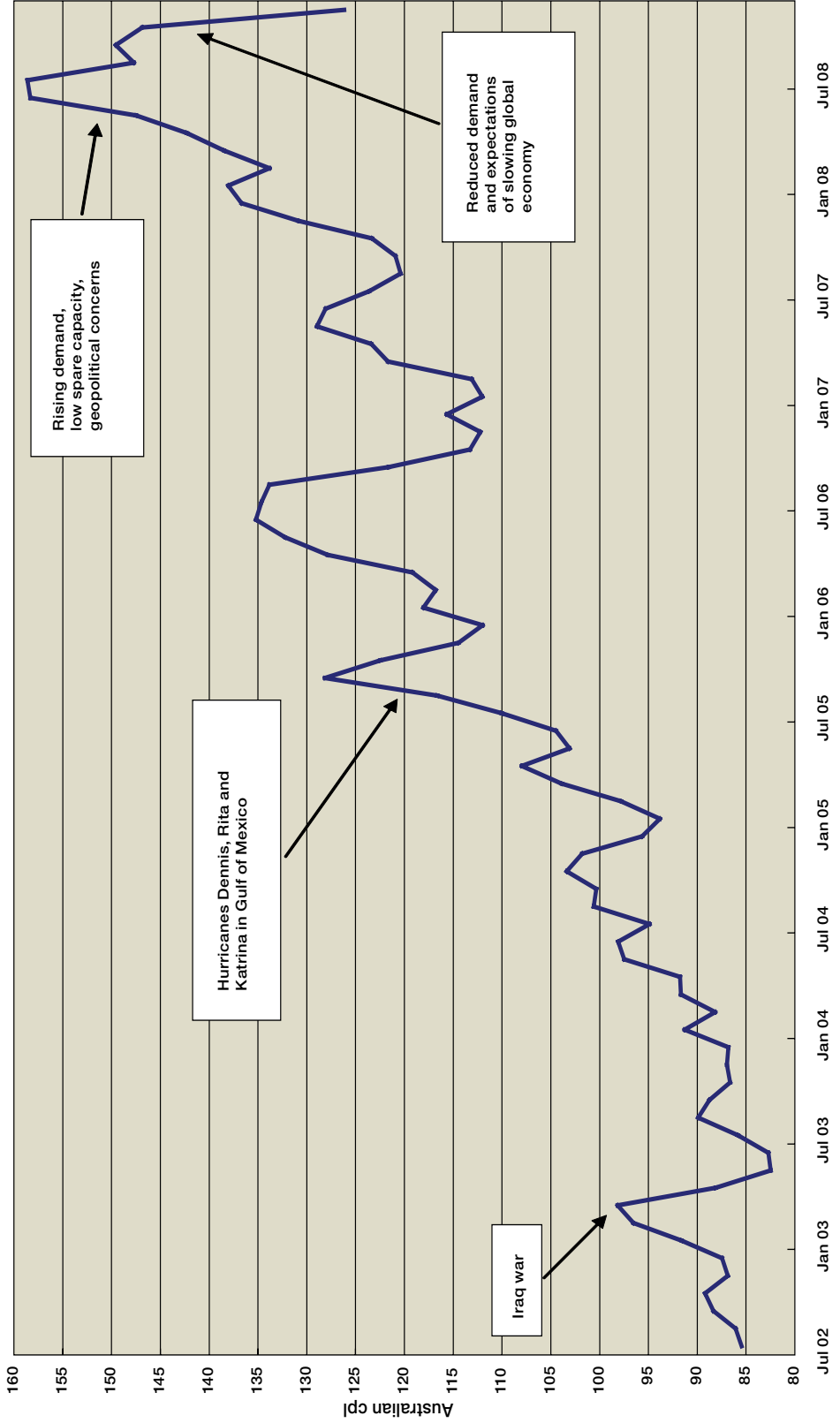
Over shorter periods, other factors can influence prices and increase price volatility.

- Political instability, civil unrest and weather conditions in oil producing/refining countries can reduce supply and create uncertainty, driving the price upwards.
- Refinery specific factors, such as scheduled and unscheduled maintenance and upgrades—as well as skills shortages—can affect output, which in turn can influence prices.
- Movements in the \$A/\$US exchange rate also influence domestically priced fuel.

Chart 6.3 shows movements in average monthly retail unleaded petrol prices in the five largest metropolitan cities between July 2002 and November 2008.

The chart illustrates how global events, such as the Iraq war in early 2003 and hurricanes in 2004 and 2005, have had an impact on prices. From late 2006 until mid-2008 there was overall upward pressure on prices because of rising global demand and low spare capacity as well as geopolitical concerns, which pushed prices to record levels. From late July 2008 there has been a significant fall in prices, associated with reduced world demand and expectations of a slowing global economy.

Chart 6.3 Average monthly unleaded petrol prices in the five largest metropolitan cities in the period July 2002 to November 2008 with some international factors affecting the price of unleaded petrol



Sources: ACCC and Informed Sources.

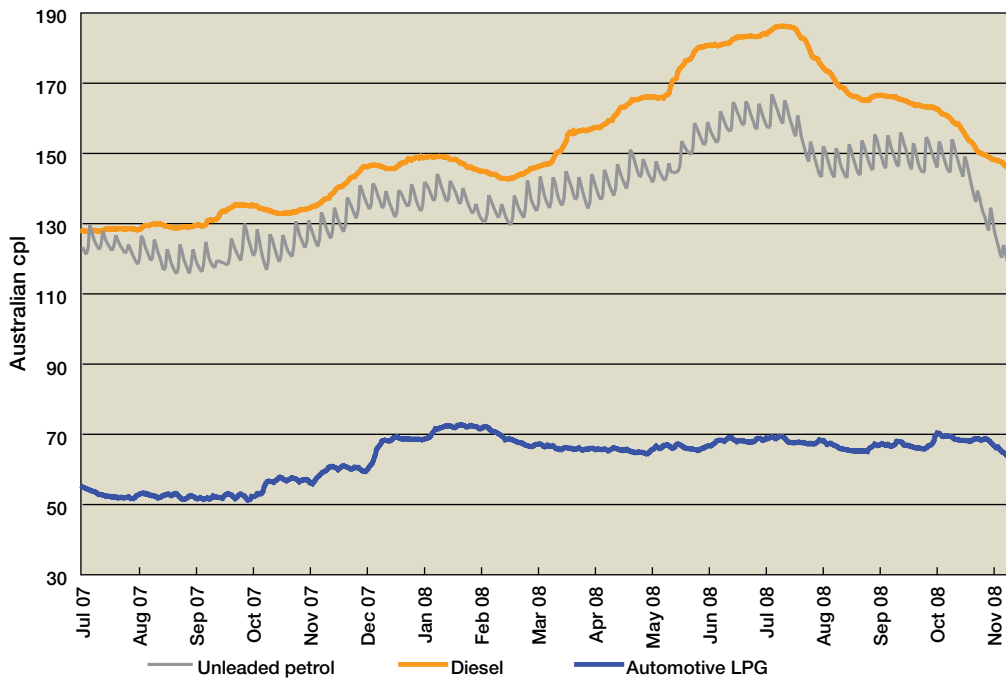
6.4 Comparison of petrol price movements with diesel and automotive LPG price movements

This section compares unleaded petrol prices with those of diesel and automotive LPG in the five major metropolitan cities in the period July 2007 to November 2008 and over the longer period July 2002 to November 2008.

6.4.1 Prices in the five largest metropolitan cities: July 2007 to November 2008

Chart 6.4 shows average daily retail prices for unleaded petrol, diesel and automotive LPG in the five major metropolitan cities in the period 1 July 2007 to 17 November 2008.

Chart 6.4 Average daily retail prices of unleaded petrol, diesel and automotive LPG in the five largest metropolitan cities: 1 July 2007 to 17 November 2008



Source: ACCC and Informed Sources.

The chart shows that petrol and diesel prices have broadly similar movements (apart from some divergences in the second half of the period). This is not surprising given that both are products based on crude oil.

Automotive LPG prices are noticeably lower. This is largely due to two factors: its price is based on movements in international LPG prices (which may diverge from crude oil movements over short periods), and excise (of 38.14 cpl) is applied to petrol and diesel but not to automotive LPG.

Retail prices increased for all fuels over the period. Unleaded petrol and diesel retail prices increased significantly from February 2008 and automotive LPG prices greatly increased

in the three months to January 2008. However, in the latter part of 2008, the prices of diesel and unleaded petrol decreased significantly. In contrast, automotive LPG prices remained relatively stable over the same period (in line with movements in the international benchmark).

Over the period, average monthly diesel prices have increased at a greater rate than unleaded petrol and automotive LPG prices. By November 2008, the average retail price of diesel in the five major metropolitan cities was 21.8 cpl higher than for unleaded petrol, compared with a difference of 4.7 cpl in July 2007.

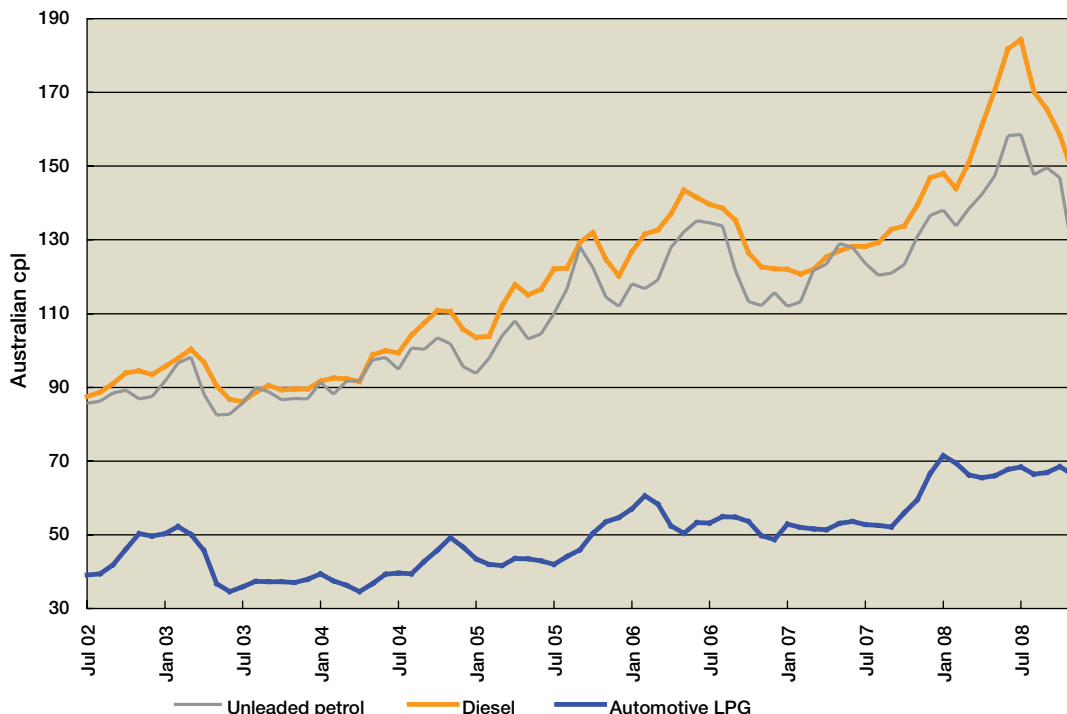
Between July 2007 and June 2008, average monthly unleaded petrol prices increased by about 28 per cent (to 158.3 cpl); automotive LPG prices also increased by about 28 per cent (to 67.7 cpl) and diesel prices increased by about 42 per cent (to 181.8 cpl).

Over the period July 2007 to November 2008 the respective increases were about 2 per cent (to 126.2 cpl) for unleaded petrol, about 26 per cent (to 66.4 cpl) for automotive LPG and about 15 per cent (to 148.0 cpl) for diesel.

6.4.2 Prices in the five largest metropolitan cities: July 2002 to November 2008

Chart 6.5 shows average monthly retail prices for unleaded petrol, diesel and automotive LPG over the period July 2002 to November 2008.

Chart 6.5 Average monthly retail prices of unleaded petrol, diesel and automotive LPG in the five largest metropolitan cities: July 2002 to November 2008



Source: ACCC and Informed Sources.

The chart shows that until June 2004, movements in average monthly unleaded petrol and diesel prices tracked reasonably closely. After June 2004, the price of diesel tended to be higher. Since August 2007, the average monthly retail price of diesel has been at least 8.0 cpl higher than that for unleaded petrol. This differential increased to a peak of 25.7 cpl in July 2008. Average monthly unleaded petrol prices have been higher than average diesel prices on only three occasions since July 2002 (August 2003, April 2004 and May 2007).

After reaching a peak of 51.3 cpl in February 2003, automotive LPG prices stabilised for an extended period to August 2004. Similarly, prices were stable between May 2006 and September 2007. Over the entire period, automotive LPG prices have increased roughly in line with unleaded petrol and diesel prices.

In summary, chart 6.4 shows that between July 2002 and November 2008:

- average monthly unleaded petrol prices increased by about 47 per cent (from 85.7 cpl to 126.2 cpl)
- average monthly diesel prices increased by about 69 per cent (from 87.5 cpl to 148.0 cpl)
- average monthly automotive LPG increased by about 70 per cent (from 39.0 cpl to 66.4 cpl).

6.5 Comparison of domestic and international retail petrol prices

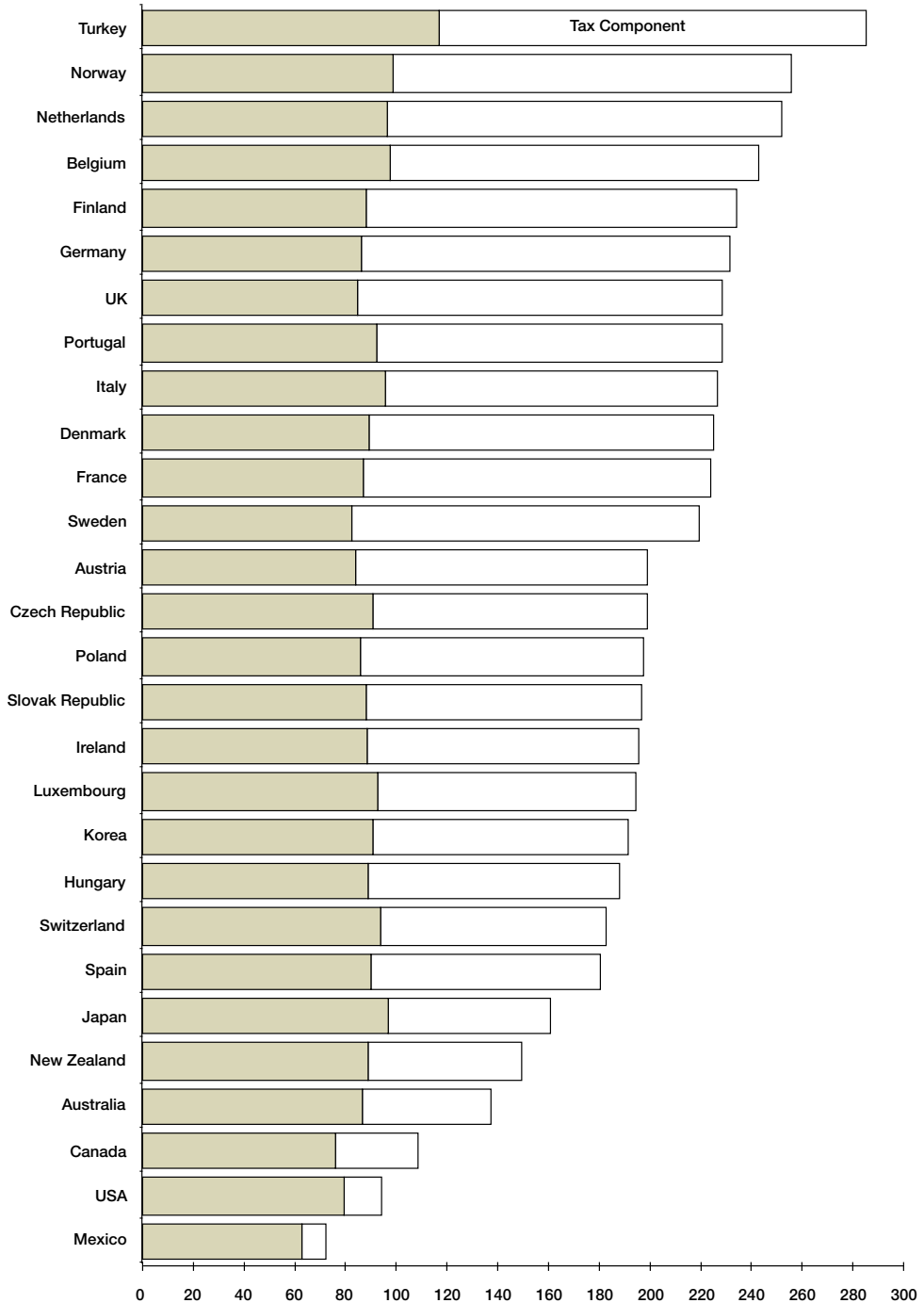
Information on retail petrol prices in OECD member countries is provided by the Australian Government Department of Resources, Energy and Tourism on a quarterly basis. This information enables the retail petrol prices paid by Australian consumers to be considered in an international context.

The latest available data—for the June 2008 quarter—is provided in chart 6.6. The chart shows that, among the 28 OECD countries surveyed, Australia had:

- the fourth cheapest petrol (after Mexico, the United States of America and Canada)
- the sixth cheapest pre-tax petrol (after Mexico, Ireland, the United States of America, the United Kingdom and Sweden).

The data indicates that Australian retail petrol prices remain relatively low compared with prices in other OECD countries. In the last year, Australia's retail prices relative to prices in other OECD countries have not significantly changed.

Chart 6.6 Petrol prices and taxes in OECD countries: June 2008 quarter⁵



Source: Department of Resources, Energy and Tourism, *Australian Petroleum Statistics*, issue no. 186, September 2008.

5 The ACCC has previously commented on its methodological concerns about the usefulness of international price comparisons using OECD data. These include that: petrol quality varies from country to country; data is based on metropolitan prices only; different sources are used for exchange rates; and government subsidy programs in some countries—and how they may affect the tax rate—are not considered. These issues were outlined in appendix J of the ACCC's 2001 report, *Reducing fuel price variability*. Notwithstanding these issues, the data provides a reference by which Australian retail prices can be compared with other developed countries. Furthermore, it enables Australia's retail prices relative to other countries to be examined over time.

6.6 E10 petrol price differential

This section describes the ACCC's monitoring of E10 petrol prices and the differential between E10 petrol prices and regular unleaded petrol prices over the period July 2007 to September 2008.

6.6.1 E10 petrol price monitoring

In August 2006 the then Treasurer announced that the ACCC would extend its monitoring of fuel prices to include E10 petrol and provide a report on the price differential between E10 petrol and unleaded petrol on a quarterly basis.⁶

E10 petrol is unleaded petrol with 10 per cent ethanol. It is sold at a lower price than regular unleaded petrol. The main reason for the lower price is that ethanol used in petrol is effectively excise free. However, there are additional production costs for E10 petrol (such as separate storage tanks for ethanol at terminals, gantries to put the ethanol into tankers and separate tanks and pumps at service stations).

The ACCC monitors prices for regular E10 unleaded petrol only. The monitoring therefore excludes premium E10 petrol prices and E5 petrol prices. Prices used in the E10 petrol analysis are collected from various service stations in a particular location and compared with the regular unleaded petrol prices at those service stations.

The first E10 quarterly report prepared by the ACCC covered the December 2006 quarter. This report—and reports for the March, June and September 2007 quarters—is available on the ACCC website.⁷ Quarterly reports for the December 2007, March, June and September 2008 quarters are presented in appendix D.

As at 1 October 2008 there were over 1200 service stations in Australia selling E10 petrol.⁸

6.6.2 Price differentials

Table 6.4 shows, for the last five quarters, the average quarterly differential across the locations monitored by the ACCC between the price of E10 petrol and the price of regular unleaded petrol.

Table 6.4 Average quarterly differential between the price of E10 petrol and the price of regular unleaded petrol: September 2007 quarter to September 2008 quarter

Quarter	E10 price differential cpl
September 2007	3.0
December 2007	2.9
March 2008	2.7
June 2008	2.7
September 2008	2.8

Source: ACCC and Informed Sources.

6 The Hon. Peter Costello MP, Treasurer, *Australian Competition and Consumer Commission to monitor ethanol blended fuel (E10) prices*, media release, Treasurer, 8 August 2006.

7 At <http://www.accc.gov.au/content/index.phtml/itemId/778778>. As reporting on the price differential between E10 petrol and regular unleaded petrol is included in this monitoring report, the E10 quarterly reports are no longer being published on the ACCC website.

8 See the E10 supplier list on the Australian Government Department of Finance and Deregulation website at <http://www.finance.gov.au/vehicle-leasing-and-fleet-management/use-of-ethanol-blended-fuels.html>

Table 6.4 shows that the average quarterly differential has remained broadly stable over the five quarters, ranging from 2.7 cpl (in the March and June 2008 quarters) to 3.0 cpl (in the September 2007 quarter). In the 2007–08 financial year the average E10 price differential was 2.8 cpl.

7 Price movements in regional areas

7.1 Introduction

This chapter presents an analysis of movements in the price of unleaded petrol in regional centres.

Chapter 10 of the 2007 ACCC petrol inquiry report considered petrol prices in regional areas in some detail. Its key findings were:

- Pricing in regional areas and country areas is not as intensely competitive as it is in metropolitan locations; there are usually fewer competitors and higher costs (e.g. transport, distribution and site operation). As a general rule, retail margins are consequently higher.
- Country prices are generally more stable than city prices and in general there are no regular price cycles in country towns.
- Petrol prices in country locations are generally higher than in the larger metropolitan cities because of a number of factors including smaller populations, greater distance from terminals, lower volumes and less competition. These factors also explain price differences between country towns.
- Each location in rural and regional areas will tend to have particular factors that influence petrol prices at particular times.

This chapter provides information on petrol prices in country areas for the period July 2007 to November 2008 and examines movements in the city–country differential over the past six financial years.

7.2 Petrol prices in country areas—July 2007 to November 2008

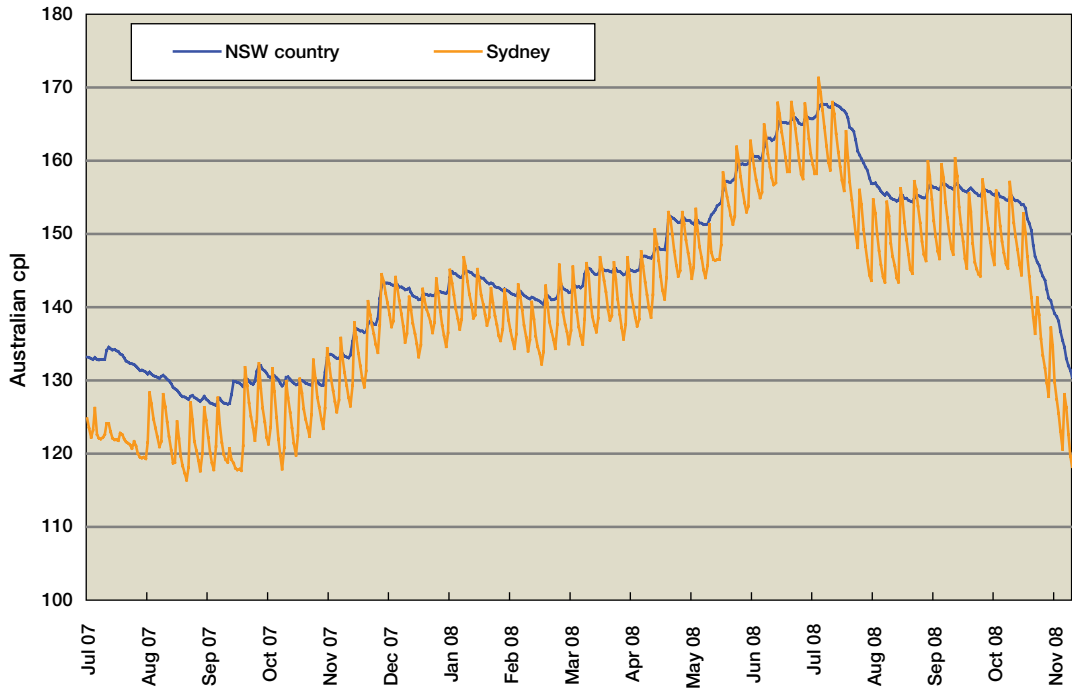
Charts 7.1 to 7.7 show average daily prices for the capital city and country towns for each state and the Northern Territory for the period 1 July 2007 to 17 November 2008.

The charts show that:

- Prices in the larger capital cities tend to move in regular price cycles, whereas they do not in country areas.
- There are periods of significant discounting in some capital cities at certain times—such as Sydney in July 2007, Melbourne in May 2008 and Adelaide in February 2008—which increase the difference between capital city and country prices.
- Overall, country prices tend to move in a similar pattern to those in the respective capital city.
- In some states, country prices are noticeably higher than those in the capital city (e.g. Western Australia and the Northern Territory) and in others they are closer to the capital city price (e.g. Tasmania).

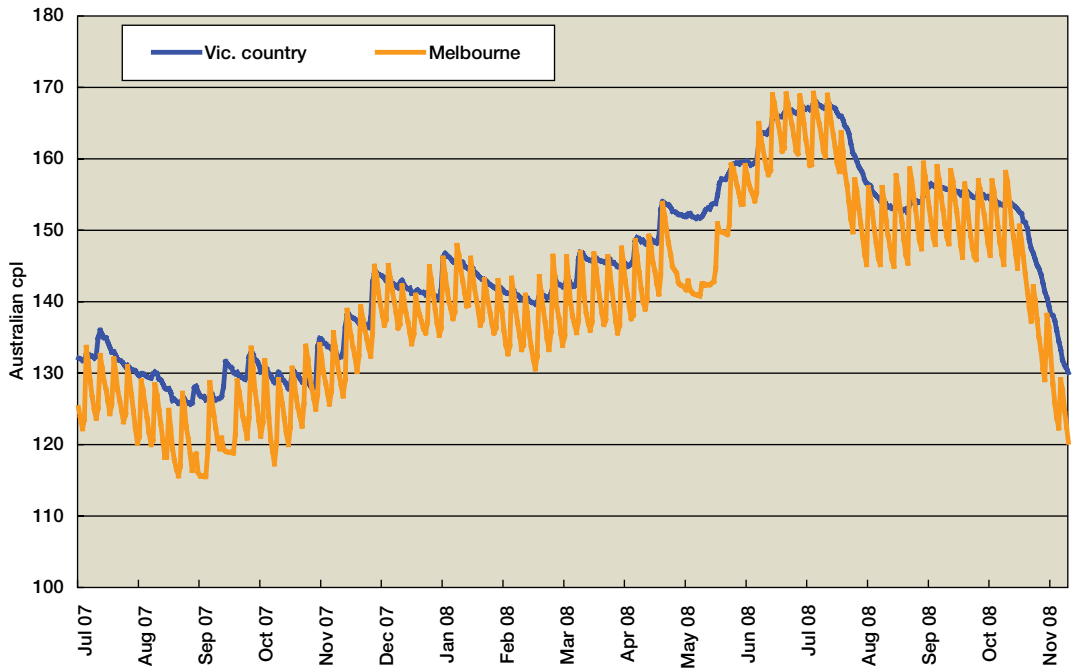
Average yearly prices in 2007–08 for the country towns monitored by the ACCC are provided in appendix B.

Chart 7.1 Sydney and New South Wales country towns—average daily unleaded petrol prices: 1 July 2007 to 17 November 2008



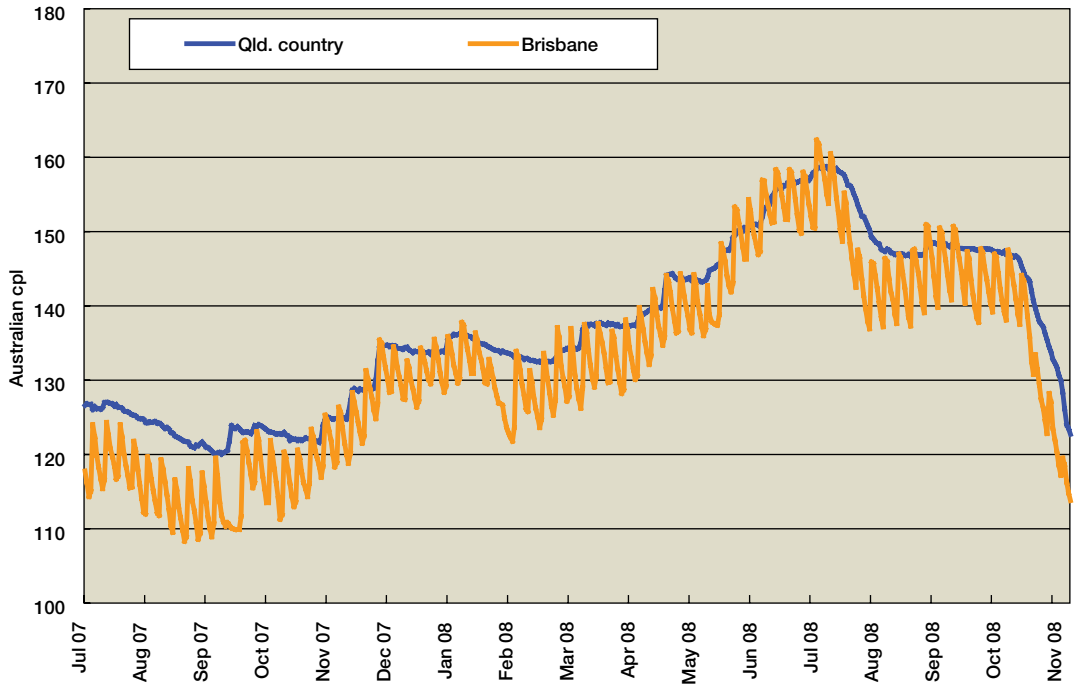
Source: ACCC and Informed Sources.

Chart 7.2 Melbourne and Victorian country towns—average daily unleaded petrol prices: 1 July 2007 to 17 November 2008



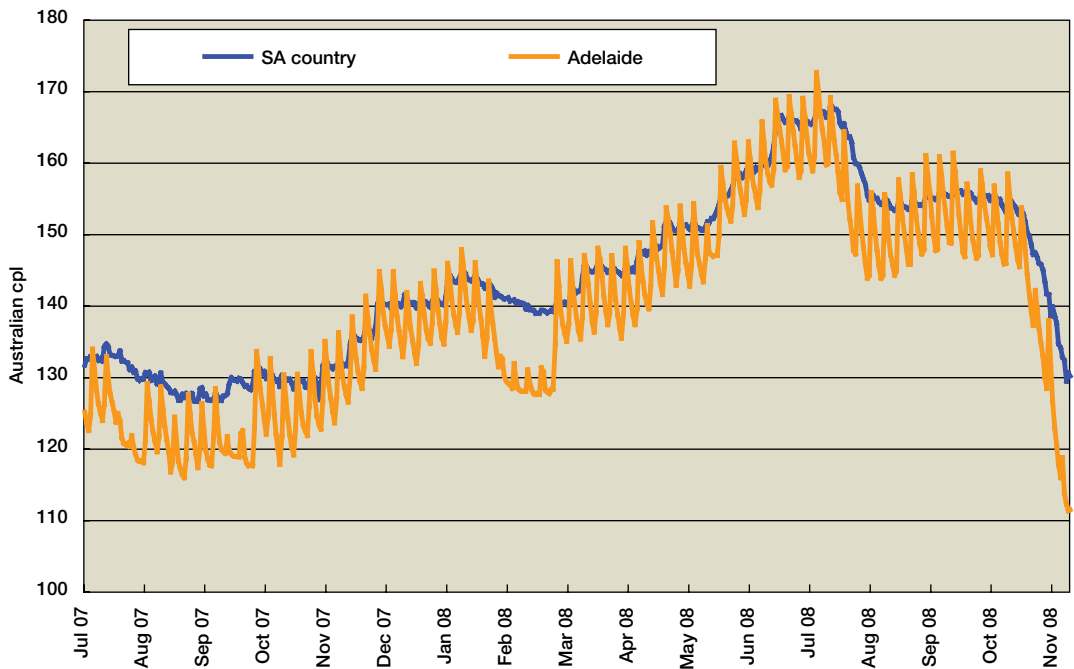
Source: ACCC and Informed Sources.

Chart 7.3 Brisbane and Queensland country towns—average daily unleaded petrol prices: 1 July 2007 to 17 November 2008



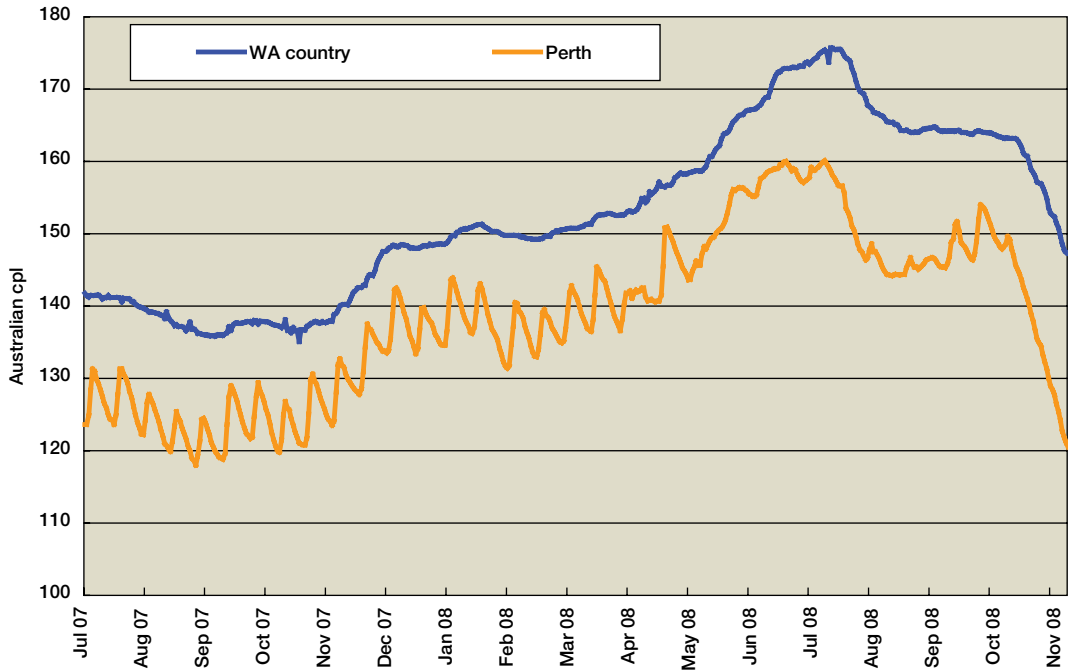
Source: ACCC and Informed Sources.

Chart 7.4 Adelaide and South Australian country towns—average daily unleaded petrol prices: 1 July 2007 to 17 November 2008



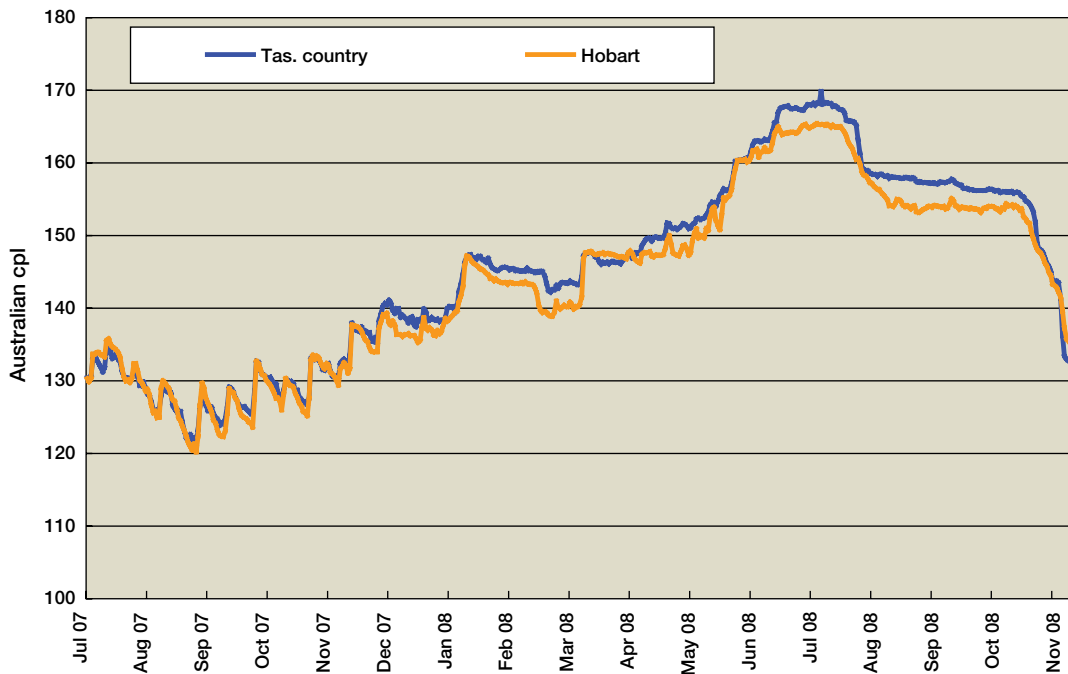
Source: ACCC and Informed Sources.

Chart 7.5 Perth and Western Australian country towns—average daily unleaded petrol prices: 1 July 2007 to 17 November 2008



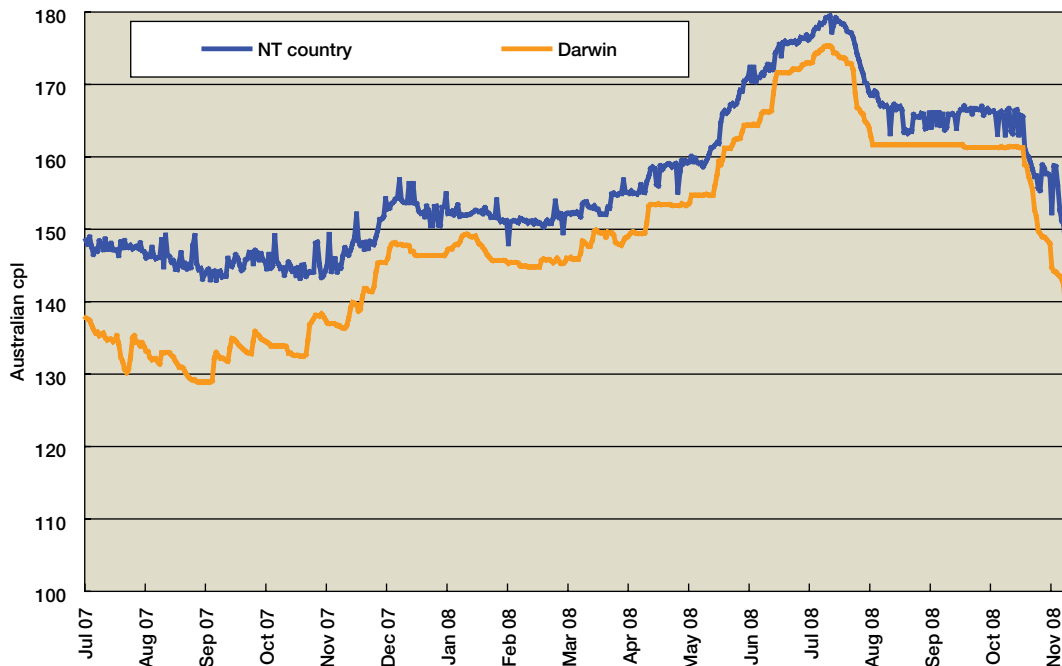
Source: ACCC and Informed Sources.

Chart 7.6 Hobart and Tasmanian country towns—average daily unleaded petrol prices: 1 July 2007 to 17 November 2008



Source: ACCC and Informed Sources.

Chart 7.7 Darwin and Northern Territory country towns—average daily unleaded petrol prices: 1 July 2007 to 17 November 2008



Source: ACCC and Informed Sources.

7.3 City–country differential

The city–country differential is the difference between the average country price and the average capital city price.

Annual city–country differential

Table 7.1 shows the city–country differential for the six states and the Northern Territory on an annual basis for the six years from 2002–03 to 2007–08. It also shows two aggregate indicators of the city–country differential (five-city and eight-city city–country differentials).¹

¹ The city–country differentials for each state are the difference between the arithmetic average of average annual prices in each country town in the state and the average annual capital city price. The five-city city–country differential is the difference between the arithmetic average country price for the seven states and territories monitored (there are no prices available for the Australian Capital Territory other than Canberra) and the arithmetic average price for the five largest metropolitan cities—Sydney, Melbourne, Brisbane, Adelaide and Perth. The **eight-city** city–country differential is the difference between the arithmetic average country price for the seven states and territories monitored and the arithmetic average price for the eight capital cities. Since the eight-city differential includes in the city price the smaller capital cities, which tend to have higher prices than the five largest metropolitan cities, the eight-city city–country differential produces smaller numbers than the five-city city–country differential. Note: this analysis is based on price data from FUELtrac.

Table 7.1 Annual city–country differentials: 2002–03 to 2007–08

	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	Six year average
	cpl	cpl	cpl	cpl	cpl	cpl	cpl
State							
New South Wales	4.1	3.5	3.4	4.9	5.1	4.5	4.3
Victoria	4.7	3.3	5.7	4.9	4.3	3.9	4.5
Queensland	4.5	4.1	5.0	5.3	5.1	5.3	4.9
South Australia	5.1	3.9	4.6	5.1	6.9	6.3	5.3
Western Australia	7.9	8.7	10.4	9.6	8.8	8.9	9.1
Tasmania	-0.1	0.5	0.0	-1.5	0.6	0.6	0.0
Northern Territory	7.4	4.2	4.7	3.4	3.2	3.8	4.5
Aggregate indicators							
Five-city	4.9	4.2	5.3	5.3	5.4	5.2	5.0
Eight-city	2.4	1.5	2.5	2.4	2.6	2.2	2.3

Source: ACCC and FUELtrac.

As shown in the table, the city–country differential varies between states and over time. Over the past six years the city–country differential has averaged 5.0 cpl using a five-city average and 2.3 cpl using an eight-city average.

2007–08 compared with 2006–07

Table 7.1 shows that, compared with the previous year, in 2007–08:

- There was an increase in the city–country differential in Queensland, Western Australia and the Northern Territory. The largest increase was in the Northern Territory, with an increase of 0.6 cpl.
- The city–country differential decreased in New South Wales, Victoria, and South Australia. The largest decrease was in New South Wales and South Australia, both with a decrease of 0.6 cpl. There was no change in the average city–country differential in Tasmania.
- The five-city city–country differential decreased by 0.2 cpl and the eight-city city–country differential decreased by 0.4 cpl.

2007–08 compared with the six-year average

The table shows that, compared with the six-year average, in 2007–08:

- The city–country differential was higher in New South Wales, Queensland, South Australia and Tasmania. The largest variation was in South Australia, where it was higher by 1.0 cpl.
- The city–country differential was lower in Victoria, Western Australia and the Northern Territory. The largest variation was in the Northern Territory, where it was lower by 0.7 cpl.
- The five-city city–country differential was higher (by 0.2 cpl), and the eight-city city–country differential was slightly lower (by 0.1 cpl), than the six-year average.

2002–03 to 2007–08

The table shows that for each state and the Northern Territory over the six-year period 2002–03 to 2007–08:

- The lowest city–country differential over the period occurred in:
 - 2002–03 for Western Australia
 - 2003–04 for three states (Victoria, Queensland and South Australia)
 - 2004–05 in New South Wales
 - 2005–06 in Tasmania
 - 2006–07 in the Northern Territory.
- The lowest five-city and eight-city city–country differentials occurred in 2003–04.
- Western Australia generally had the highest city–country differential and Tasmania had the lowest.
- The difference between the highest and lowest city–country differential over the six years ranged between 1.2 cpl and 3.0 cpl for six states (i.e. New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania); in the Northern Territory it was 4.2 cpl.
- The difference between the highest and lowest five-city city–country differential over the five years was 1.2 cpl and the difference between the highest and lowest eight-city city–country differential was 1.1 cpl.

8 Retail price analysis

8.1 Introduction

This chapter analyses various elements of retail unleaded petrol prices.

It examines components that make up the retail price of unleaded petrol for the period from 2003–04 to 2007–08. This enables consumers to see the composition of the price they pay for unleaded petrol and the elements contributing to changes in these prices over time.¹

Gross indicative retail margins (that is, the difference between average retail prices and average wholesale prices) are analysed across the five largest metropolitan cities. This is undertaken for 2007–08 and for the past five financial years.

The ACCC monitors movements in retail unleaded petrol prices in Australia and movements in the international benchmark price for refined petrol in the region (that is, the spot price for Singapore Mogas 95 Unleaded). As a result of monitoring over the period from July 2007 to mid-November 2008, the ACCC identified a divergence in the movements in these prices in December 2007/January 2008. A further divergence was noted in October 2008.

¹ Since this analysis is based on international benchmark prices and posted terminal gate prices rather than the actual costs incurred by petrol retailers, it should be regarded as indicative only. However, it gives a reasonable guide to the size of the components of Australian petrol prices.

8.2 Components of retail unleaded petrol prices

8.2.1 Retail unleaded petrol prices by component, 2003–04 to 2007–08

Chart 8.1 illustrates the components of Australian retail unleaded petrol prices across the five largest metropolitan cities from 2003–04 to 2007–08.

Each bar represents the average annual retail price for unleaded petrol in the five largest metropolitan cities, disaggregated by the following:

- Tapis crude oil—this is used as the benchmark for light sweet crude oil in the Asia-Pacific region.
- Gasoline crack—this is the difference between the price of Singapore Mogas 95 Unleaded (which is refined petrol) and Tapis crude oil.
- Wholesale margin (excluding excise and wholesale GST)—this is the average of the posted terminal gate prices (TGPs)² in the five largest metropolitan cities **less** the price of Singapore Mogas 95 Unleaded, excise and wholesale GST.³
- Excise and wholesale and retail GST—this is excise (which is set at a constant 38.14 cents per litre (cpl)) **plus** GST at the wholesale and retail levels.
- Retail margin (excluding GST)—this is the average retail price in the five cities **less** the average of the posted TGPs (which includes excise and wholesale GST) in those cities and the GST-component of the retail margin.

When looking at these components, the following considerations should be borne in mind:

- The calculations are averages and do not represent actual costs or margins for any particular company.
- The wholesale and retail margins are gross margins only and take no account of operating and other costs incurred at the wholesale or retail level.
- In any one year, changes to individual components of the petrol price may not be equal to the overall change in the petrol price due to rounding.

As a result of the Queensland Government's state subsidy of 8.4 cpl (around 9.2 cpl when GST is included) at the retail level, TGPs in Brisbane have been reduced by 9.2 cpl to put the retail and wholesale prices on a consistent basis. This means the TGP data in this section (and in section 8.3) reflects adjusted TGPs rather than actual TGPs.

2 Posted TGPs refer to the TGPs of BP, Caltex, Mobil, Shell and Gull made available on the internet.

3 The wholesale margin (excluding excise and wholesale GST) includes other costs associated with the import parity price (such as freight, wharfage, insurance and loss, and the fuel quality premium). Therefore it should not be regarded as the gross margin received by wholesalers in Australia.

Chart 8.1 Components of Australian retail unleaded petrol prices in the five largest metropolitan cities: 2003–04 to 2007–08



Source: ACCC, Informed Sources, BP, Caltex, Mobil, Shell, Trafigura, Gull and Platts.

Note: The sum of individual components of the petrol price may not be equal to the overall total because of rounding.

8.2.2 Components in 2007–08

Chart 8.1 indicates that for 2007–08:

- the cost of crude oil represented more than half of the retail price of unleaded petrol, and increased by around 27 per cent (or 15.2 cpl) from the previous year
- retail prices increased by around 11 per cent (or 12.9 cpl) from the previous year
- retail margins (excluding GST) increased by 0.2 cpl and wholesale margins (excluding excise and wholesale GST) decreased by 1.2 cpl from the previous year.

8.2.3 Components from 2003–04 to 2007–08

Chart 8.1 shows that from 2003–04 to 2007–08:

- The price of crude oil was the dominant driver in changes to the retail price of unleaded petrol in Australia. Since 2005–06 crude oil has been the largest component in the retail price of petrol, followed by excise and the GST.
- Retail margins (excluding GST) decreased in 2004–05 but have steadily increased since. Between 2003–04 and 2007–08, retail margins (excluding GST) increased by 0.7 cpl. However, when measured as a proportion of the total retail price, retail margins (excluding GST) have been broadly steady over the period.
- Wholesale margins (excluding excise and wholesale GST) increased by 2.6 cpl between 2003–04 and 2007–08. They increased to 8.1 cpl in 2006–07 before decreasing to 6.9 cpl the following year.
- The gasoline crack decreased from 6.1 cpl in 2003–04 to 1.4 cpl in 2007–08.

8.3 Gross indicative retail margins

The gross indicative retail margin is the difference between the average retail price and the average wholesale price (as approximated by the average of the posted TGPs). Since costs to the retailer, such as branding and transportation, are excluded, it is a gross measure.

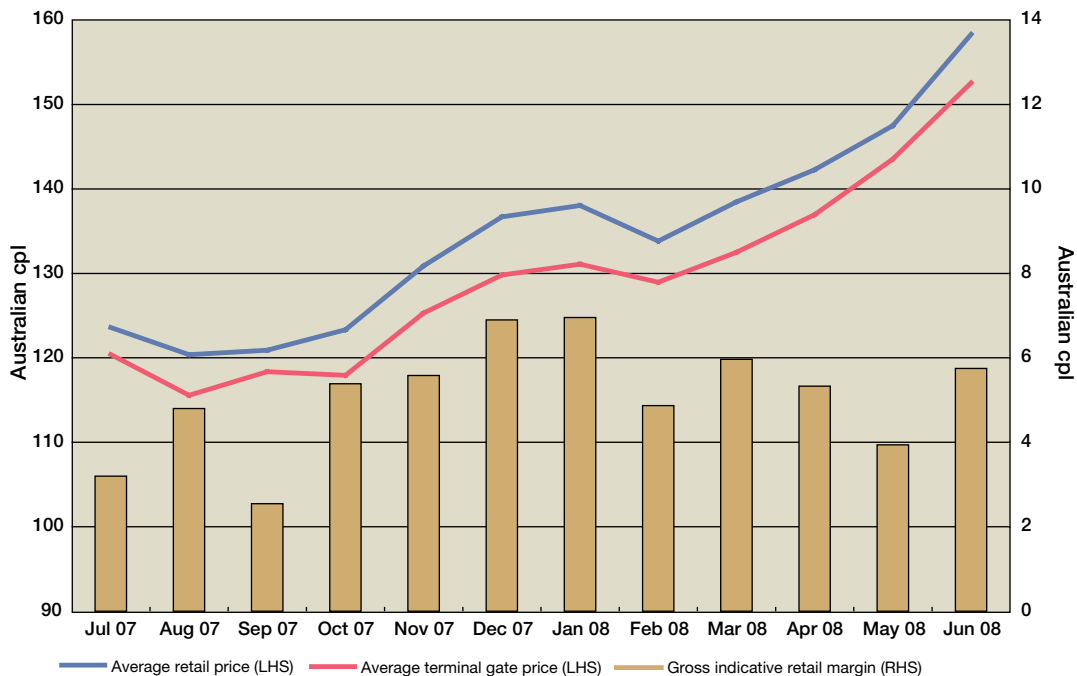
The TGP is the spot purchase price that a purchaser who arrives with a tanker truck at the terminal could expect to pay for a bulk purchase of fuel. While few sales are made at the spot TGP, most wholesale prices are broadly similar to the TGP, having been built on the same components. Furthermore, wholesale prices generally move in line with TGP movements. It can therefore be considered as a benchmark price.

As a result, the gross retail margin is indicative rather than reflective of the actual margin of any particular market participant.

8.3.1 Gross indicative retail margins in 2007–08

Chart 8.2 shows monthly average retail prices, monthly average posted TGPs and the gross indicative retail margin for the five largest metropolitan cities in 2007–08.

Chart 8.2 Average monthly unleaded petrol prices, average TGPs and gross indicative retail margin in the five largest metropolitan cities: 2007–08



Source: ACCC, Informed Sources, BP, Caltex, Mobil, Shell and Gull.

The chart shows that average retail prices generally followed average TGPs throughout 2007–08. However, on a monthly basis, gross indicative margins can be volatile. In 2007–08, monthly average gross indicative margins ranged from a low of 2.5 cpl in September 2007 to a high of 7.0 cpl in January 2008. The average gross indicative retail margin in 2007–08 was 5.1 cpl.

8.3.2 Gross indicative retail margins for the last five financial years

Table 8.1 presents annual average retail prices, annual average TGPs and gross indicative retail margins across the five largest metropolitan cities for the last five financial years. It also presents the gross indicative margin as a proportion of the annual average retail price.

The table shows:

- An increase of 0.2 cpl in gross indicative retail margins in 2007–08 (5.1 cpl) compared with 2006–07 (4.9 cpl).
- Gross indicative retail margins decreased between 2003–04 and 2004–05 (by 0.6 cpl) but have increased every year since.
- As a proportion of the average retail price, the gross indicative retail margin in 2007–08 was 3.8 per cent. This was a decrease of 0.2 percentage points on the previous year.
- Over the last four years, the gross indicative retail margin as a proportion of the average retail price has been fairly stable (between 3.4 per cent and 4.0 per cent).

Table 8.1 Average annual retail prices, average TGPs and gross indicative retail margins in the five largest metropolitan cities: 2003–04 to 2007–08

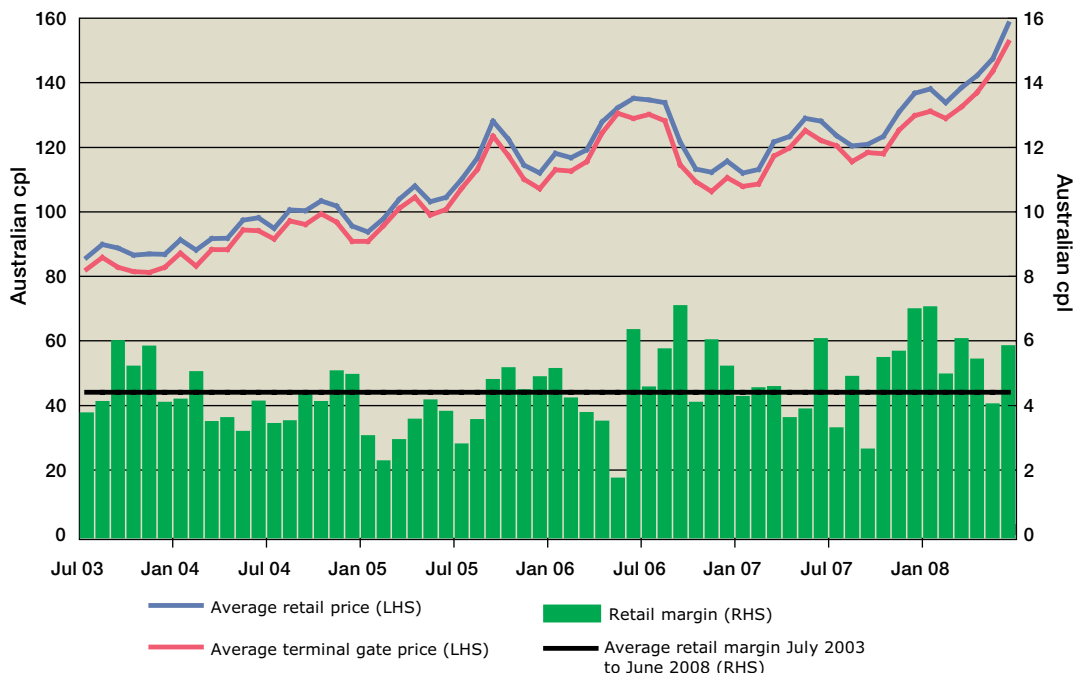
	Average retail price	Average TGP	Gross indicative retail margin	Margin as proportion of retail price
	cpl	cpl	cpl	%
2003–04	90.3	86.0	4.3	4.8
2004–05	100.6	96.9	3.7	3.7
2005–06	121.1	116.9	4.2	3.4
2006–07	121.6	116.7	4.9	4.0
2007–08	134.5	129.4	5.1	3.8

Source: ACCC, Informed Sources, BP, Caltex, Mobil, Shell, Trafigura and Gull.

Chart 8.3 shows average monthly retail prices, average TGPs and gross indicative retail margins across the five largest metropolitan cities for the last five financial years.

From July 2003 to June 2008, the average retail gross indicative margin was 4.4 cpl. The highest average monthly gross indicative retail margin over the period was 7.0 cpl (in September 2006 and January 2008) and the lowest gross indicative retail margin was 1.6 cpl (in May 2006).

Chart 8.3 Average monthly retail prices, average TGPs and gross indicative retail margins in the five largest metropolitan cities: 2003–04 to 2007–08



Source: ACCC, Informed Sources, BP, Caltex, Mobil, Shell, Trafigura and Gull.

Data on gross indicative retail margins for each of the five major metropolitan cities is in appendix E. It shows monthly average gross indicative retail margins for 2007–08 and average annual gross indicative margins for the last six financial years.

8.4 Domestic unleaded petrol price movements compared with international benchmark price movements

8.4.1 ACCC monitoring

As noted in the 2007 petrol inquiry report, the ACCC, on an ongoing basis, compares movements in retail unleaded petrol prices in Australia with movements in the international benchmark price for refined petrol in the region (that is, the spot price for Singapore Mogas 95 Unleaded).

One approach taken by the ACCC is to examine movements in seven-day rolling average retail unleaded petrol prices in the five major metropolitan cities and seven-day rolling average prices for Singapore Mogas 95 Unleaded lagged by one week in Australian cents per litre.

A seven-day rolling average price is the average of the current day's price and the prices on the six previous days. It is used to smooth out the effect of the regular petrol price cycles in the larger metropolitan cities. Furthermore, oil companies use a rolling average price for Singapore Mogas 95 Unleaded when determining their wholesale prices.

Singapore Mogas 95 Unleaded prices are lagged by one week because there is generally about a one- to two-week time lag between changes in international prices and changes in retail prices in the five largest metropolitan cities because of the averaging formula used by refiners in Australia when setting their wholesale prices. The lag may be longer during times of significant price volatility.

The ACCC also examines movements in average retail unleaded petrol prices in other locations in Australia against movements in Singapore Mogas 95 Unleaded prices. In those cases, a longer lag may be applied to movements in Singapore Mogas 95 Unleaded prices to reflect the fact that fuel stocks are replenished less frequently in country areas.

8.4.2 Divergences—December 2007/January 2008 and October 2008

Chart 8.4 shows daily seven-day rolling average retail unleaded petrol prices across the five largest metropolitan cities and seven-day rolling average prices of Singapore Mogas 95 Unleaded lagged by one week in Australian cents per litre from July 2007 to mid-November 2008.

December 2007/January 2008

In December 2007 the price of Singapore Mogas 95 Unleaded significantly declined but this decline was not reflected in average retail prices.

Consequently, in late December 2007 the ACCC wrote to the chief executive officers of the four refiner–marketers and the two major supermarket chains in Australia seeking an explanation of the divergence. A similar divergence was noted in January 2008 and meetings were held with the chief executive officers in early February 2008.

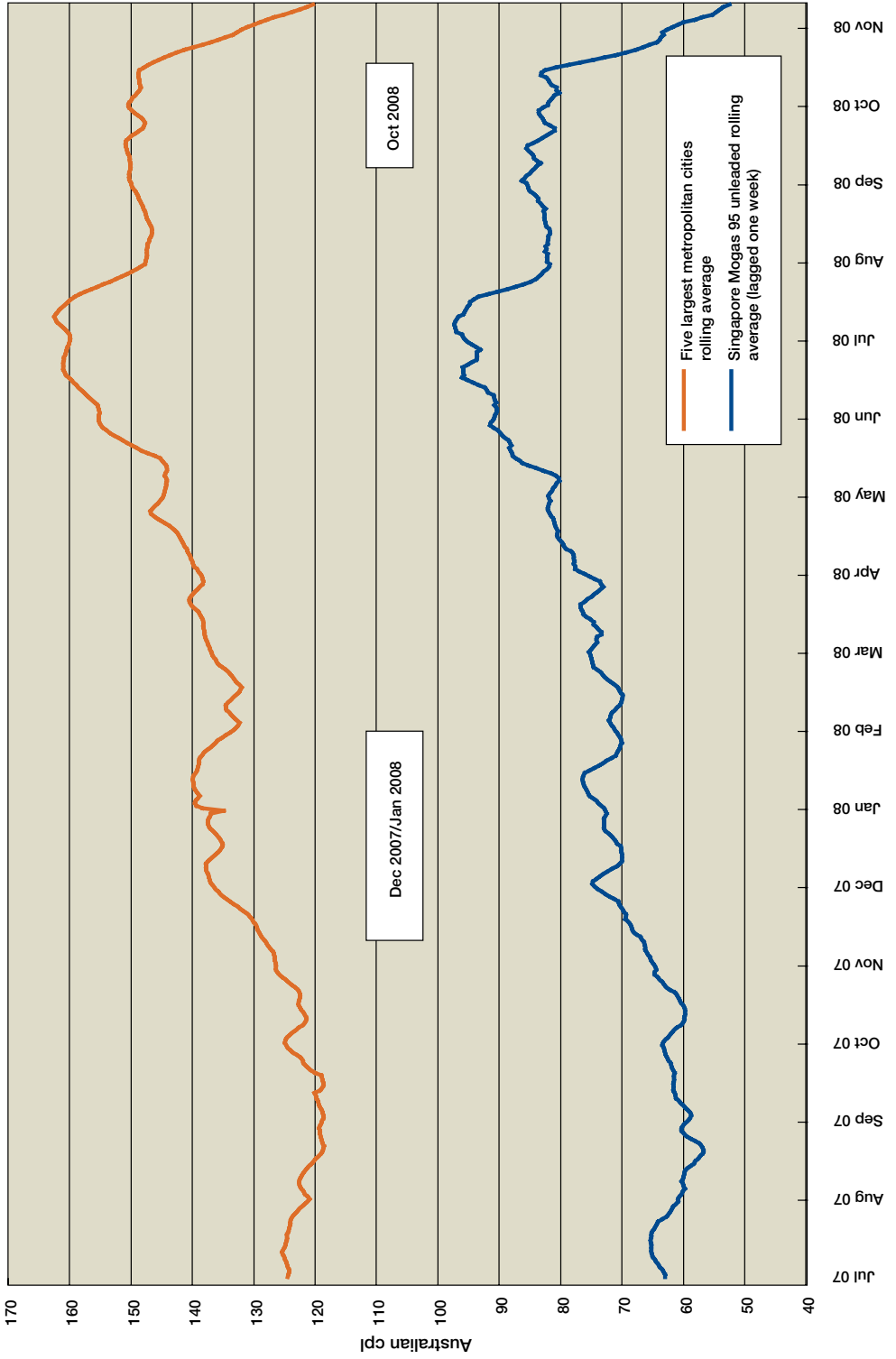
Factors identified as contributors to the divergence included:

- supply issues in New South Wales, Victoria and Queensland as a result of refinery and terminal problems⁴
- less discounting occurring in these markets as a result of these supply issues
- an increase in international freight costs in December 2007.

The ACCC considers that the main influences contributing to the divergences in December 2007/January 2008 were supply issues at a number of refineries around Australia combined with relatively sharp decreases in the price of Singapore Mogas 95 Unleaded in those months.

⁴ See, for example, the relevant sections in the following: Shell media release, *Shell premium fuels back in stock across NSW and ACT*, 12 May 2008; and Caltex media release, *Improved operating performance lifts Caltex profit despite stronger \$A*, 22 February 2008.

Chart 8.4 Seven-day rolling average retail unleaded petrol prices across the five largest metropolitan cities and seven-day rolling average prices of Singapore Mogas 95 Unleaded lagged by one week in Australian cents per litre: 2007-08



Source: ACCC, Informed Sources and Platts.

October 2008

A further divergence in the movements in retail petrol prices in Australia with movements in the price of Singapore Mogas 95 Unleaded was noted in October 2008. This was associated with a dramatic reduction in the price of Singapore Mogas 95 Unleaded. In mid-October 2008 letters were written to the chief executive officers of the four refiner–marketers and the two major supermarket chains seeking comments and an explanation, and meetings were subsequently held with them.

Factors identified as contributors to the divergence included:

- the fall in the value of the \$A/\$US rate, which was leading to an increase in the Australian value of charges for international freight rates and the fuel quality premium (which are priced in \$US)
- an increase in international freight rates in \$US terms
- the impact of the GST as pump prices increased over the last year.⁵

The ACCC considers key factors contributing to the mid-October 2008 divergence were the significant volatility in the prices of Singapore Mogas 95 Unleaded and the \$A/\$US exchange rate over this period:

- From early July 2008 to mid-November 2008, the daily price of Singapore Mogas 95 Unleaded decreased by over US\$100 per barrel (or almost 70 per cent).
- Over the same period the \$A/\$US exchange rate decreased from around \$0.95 in early July 2008 to around \$0.64 in mid-November 2008 (or almost 33 per cent).

Over time there is a broadly stable relationship between movements in retail prices and movements in Singapore Mogas 95 Unleaded prices. However, unprecedented volatility in product and financial markets in the last few months caused a short-term misalignment in this usual relationship, which led to a divergence in these two price series in mid-October 2008. Since then, the relationship between movements in retail prices and movements in Singapore Mogas 95 Unleaded prices has reverted to normal.

⁵ As the retail price of petrol increases, so does the GST component. However, as the ACCC is assessing the difference between Singapore Mogas 95 Unleaded prices in Australian cents per litre and retail prices, part of the increase in the difference may be due to the influence of the GST instead of any underlying differences.

9 Monitoring of industry costs, revenue and profits

9.1 Introduction

This chapter examines costs, revenue and profits in the Australian petrol industry.¹ Due to some data limitations, costs and revenue have been analysed separately to profits. These data limitations have been outlined below and should be carefully considered when reviewing this chapter.

9.2 Costs and revenue

9.2.1 Data collection and limitations

The ACCC has examined the costs and revenue of the Australian petrol industry. This section outlines costs and revenue for each sector of the petrol industry including refining, supply, wholesale and retail.

Data collection

The ACCC collected information on costs and revenue from the monitored companies at each of the four functional levels of the petrol industry including:

- Refining—production of refined products at a domestic refinery. This sector comprises the four refiner–marketers.
- Supply—supply of products to the terminal. Sources of supply include domestic refineries, imports of refined products, or sales between refiner–marketers through buy–sell arrangements. This sector also includes the four refiner–marketers.
- Wholesale—supply of fuel to retail outlets, other companies and other wholesalers. This sector includes the four refiner–marketers and a number of independent wholesalers.
- Retail—supply of fuel and other goods from retail sites to consumers. This sector includes refiner–marketers, a number of independent retailers and the two supermarkets.²

The ACCC did not include all independent petrol wholesalers and retailers in this monitoring exercise. It is therefore important to bear in mind that the discussion of costs and revenue at the wholesale and retail level refers only to the monitored companies and not to the entire petrol industry.

Data limitations

Monitoring of costs and revenue is complicated by a variety of accounting models and organisational structures within and across individual companies, in particular the refiner–marketers. These differences have inevitably complicated comparisons of financial performance across vertical layers, companies and groups of competitors.

¹ Excluding domestic exploration and production of crude oil.

² Given Mobil's 50 per cent stake in Strasburger Enterprises (Properties) Pty Ltd (SEP), it has been considered as a refiner–marketer throughout this chapter.

In addition, the data reported at the wholesale and retail levels does not cover the entire industry. Data was not obtained from wholesalers other than the refiner–marketers, Neumann, Gull, United and Liberty. At the retail level, data was not obtained from independent retailers other than the large independent chains identified.

Much of the financial information that has been provided to the ACCC is commercially sensitive. Therefore discussion of costs and revenue has been provided at an aggregate rather than company level.

Accordingly, the ACCC has presented an analysis of movements in costs and revenue over time, by sector, with the base year set at 2005–06.

The ACCC intends to work with the monitored companies to further review the data provided before the next report.

Although the focus of monitoring is on petrol, the ACCC asked companies to provide information about the costs and revenue of a broader range of other fuels, including diesel and LPG. Given the importance of non-fuel products to costs and revenue at the retail level, the ACCC has also collected information about the costs and revenue of convenience store sales and services such as car-washes.

9.2.2 Refining

The refining sector consists of the four refiner–marketers: BP, Caltex, Mobil and Shell, which own and operate all seven refineries in Australia.

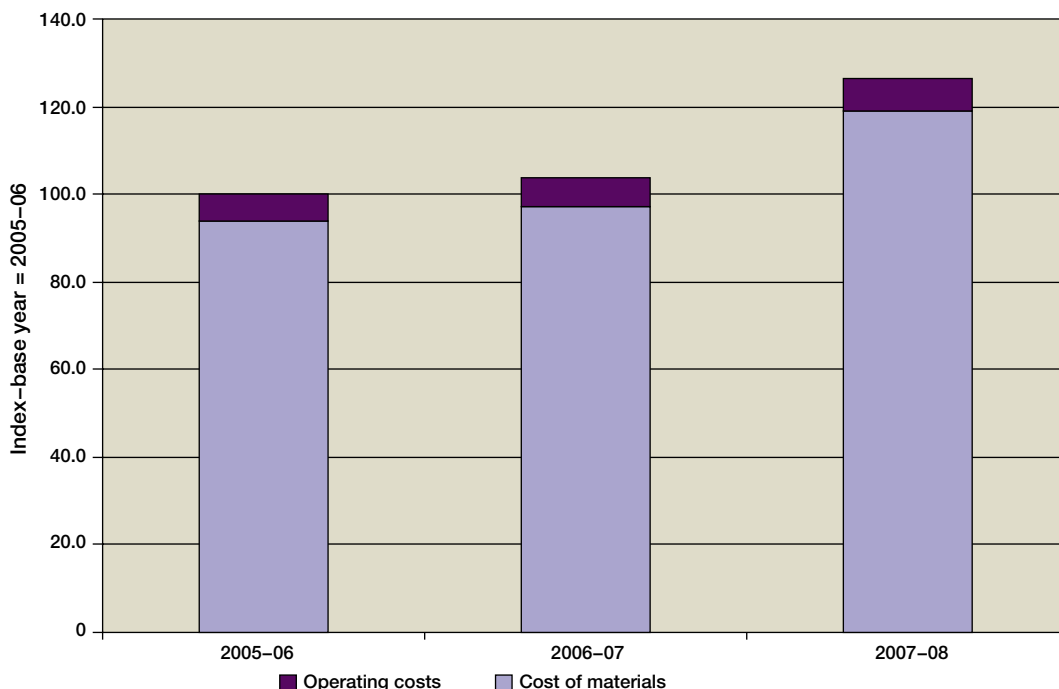
Refining costs

The ACCC understands that not all of the refiner–marketers allocate all costs to particular products at the refinery level. This is because refineries produce a mix of products, and there is no unique way to allocate joint and common costs to individual product types. The following discussion of costs at the refinery level therefore includes all refinery production.

Chart 9.1 summarises refiners' total refinery costs over the three financial years to 2007–08.³ Cost of materials includes the direct costs of crude oil and change in inventories. Operating costs include ongoing production costs and overheads.

³ Excise is not included in refinery cost or revenue data.

Chart 9.1 Australian refinery costs: 2005–06 to 2007–08



Source: Derived by ACCC from data supplied by the monitored companies.

The cost of materials is by far the largest expense for petrol refiners, and accounted for about 94 per cent of refiners’ total costs each year from 2005–06 (chart 9.1). Crude oil is the major component of the costs of materials (accounting for over 90 per cent). In 2007–08, costs of materials increased by about 22 per cent. The rise in materials costs was the primary cause of the increase in total refinery costs in 2007–08. A similar outcome is also apparent in 2006–07.

Based on information provided by the companies, total capital expenditure in 2007–08 was about \$780 million in the domestic refining industry. This continuing growth in capital expenditure seems to reflect the pattern of investment over the past 10 years to meet tightening Australian fuel standards.

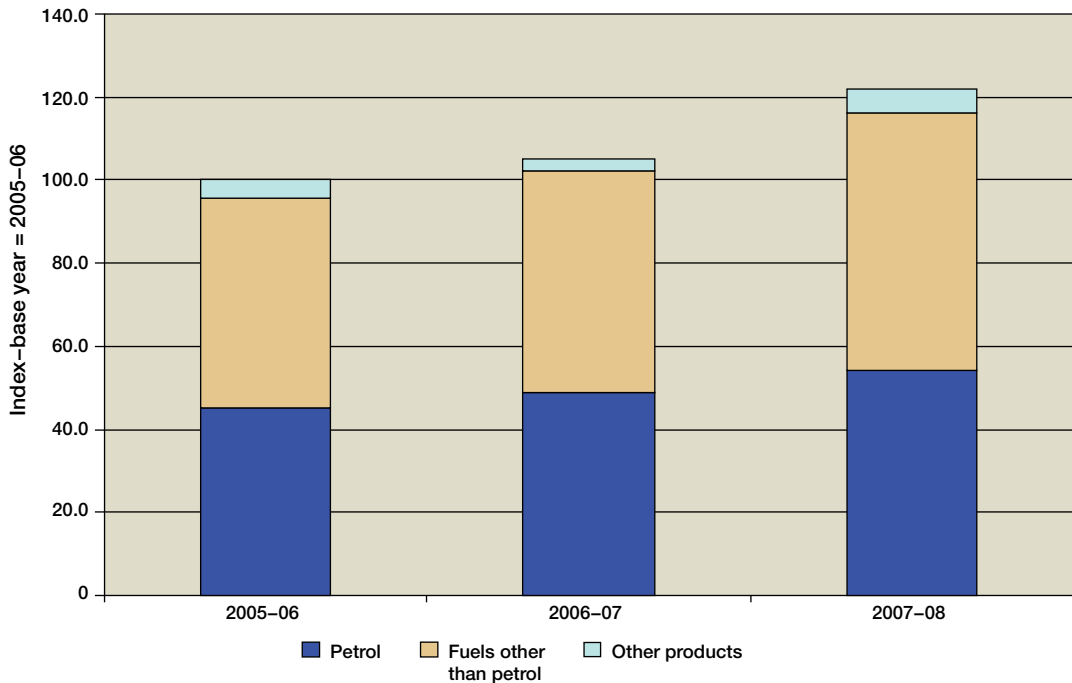
Refining revenue

The data provided to the ACCC indicates that the total revenue of the refining sector increased by about 16 per cent from 2006–07. Between 2005–06 and 2006–07, total revenue increased by just over 5 per cent (chart 9.2).

In 2007–08 combined revenue from sales of petrol increased by approximately 11 per cent. This was a slightly lower contribution than in the previous two years.

Revenue from sales of unleaded petrol grew by about 9 per cent in 2007–08. Revenue from sales of premium unleaded petrol increased by just over 18 per cent in 2007–08.

Chart 9.2 Australian refinery revenue: 2005–06 to 2007–08*



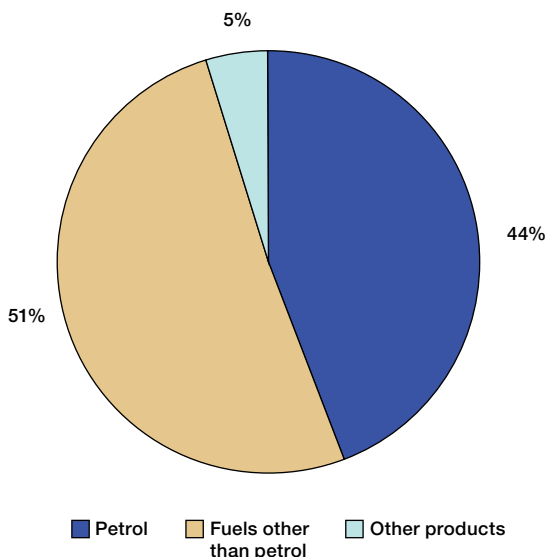
Source: Derived by ACCC from data supplied by the monitored companies.

Note: Other products include heating oils, lubricating oils, greases, basestocks and bitumen.

* Indexed data excludes excise.

Chart 9.3 shows each revenue stream as a percentage of total revenue in 2007–08. Revenue from sales of petrol accounts for a large portion of total refining revenue. However, the largest source of refining revenue in 2007–08 was from sales of fuels other than petrol, including diesel, LPG and aviation fuel, which made up 51 per cent of revenue in 2007–08. This figure has remained steady since 2005–06.

Chart 9.3 Sources of refining revenue in Australia: 2007–08



Source: ACCC data supplied by the monitored companies.

Note: Other products include heating oils, lubricating oils, greases, basestocks and bitumen.

9.2.3 Supply

Supply refers to the sale of petrol by refiner–marketers to wholesalers from terminals. Petrol may be supplied directly from domestic refineries, imports and buy–sell arrangements.

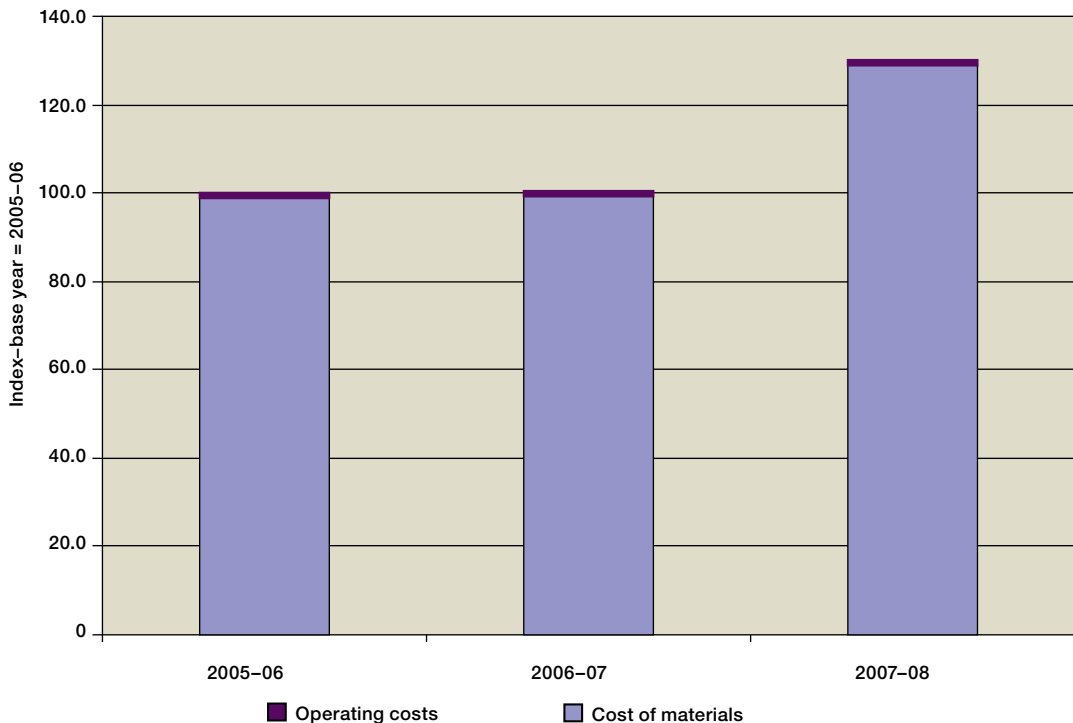
Some refiner–marketers reported that they do not maintain separate accounts for this sector, but consolidate supply activities with refining and wholesale operations. As a result, some of the cost and revenue data supplied by the refiner–marketers about the supply sector was based on allocations not normally reported by their accounting systems. Consequently, the ACCC considers that the assessment of this data and any implications drawn from it are indicative only and should be used with these caveats in mind.

Supply costs

Based on data provided to the ACCC, supply costs in 2007–08 rose by just under 30 per cent during the year. In contrast, there was little change in supply costs between 2005–06 and 2006–07.⁴ Chart 9.4 shows that supply costs are overwhelmingly made up of costs of materials which represent around 99 per cent of total costs.

⁴ It is noted, however, that this may reflect differences in pricing policies between refiner–marketers or differences in the mix of supply arrangements (such as buy–sell arrangements) and the associated costs attributed to refineries.

Chart 9.4 Australian supply costs: 2005–06 to 2007–08



Source: Derived by ACCC from data supplied by the monitored companies.

Capital expenditure in the supply sector in 2007–08 was \$332 million; an increase of 43 per cent from 2006–07. In 2005–06 capital expenditure was \$432 million.

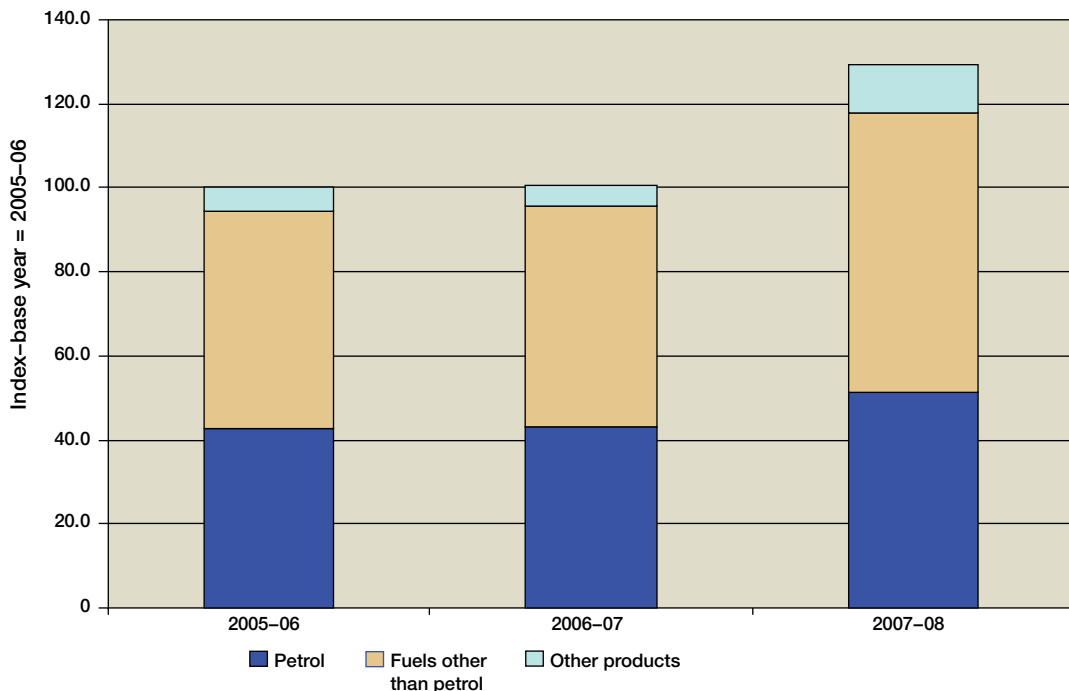
Supply revenue

Data provided to the ACCC indicates that total revenues in the supply sector in 2007–08 increased by about 28 per cent from the previous year. In contrast, supply revenues increased by less than 1 per cent between 2005–06 and 2006–07 (chart 9.5).

The majority of supply revenue comes from sales of fuels other than petrol. In 2007–08 revenue from fuels other than petrol was in the order of 51 per cent of total supply revenue, partly because of strong growth in diesel sales. The contribution of sales of fuels other than petrol to supply revenue has remained relatively steady since 2005–06. Revenue from sales of petrol was just over 40 per cent of the total revenue in 2007–08. This was a decrease of approximately 3 per cent from the previous two years.

The value of revenue from sales of other products has more than doubled since 2006–07, indicating strong revenue growth from sales of other products such as bitumen and other industrial products in the sector, albeit from a relatively low base.

Chart 9.5 Australian supply revenues: 2005–06 to 2007–08*



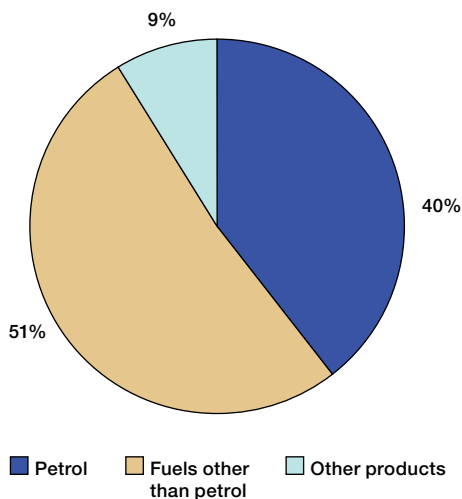
Source: Derived by ACCC from data supplied by the monitored companies.

Note: Other products include heating oils, lubricating oils, greases, basestocks and bitumen.

* Indexed data excludes excise.

Chart 9.6 shows each revenue stream as a percentage of total revenues in 2007–08.

Chart 9.6 Sources of supply revenue in Australia: 2007–08



Source: ACCC data supplied by the monitored companies.

Note: Other products include heating oils, lubricating oils, greases, basestocks and bitumen.

9.2.4 Wholesale

The wholesale sector supplies fuel and other products to commercial users such as primary producers and aviation and mining companies, as well as to retailers and other wholesalers.

The four refiner–marketers have extensive wholesale operations, including various distribution networks. The wholesale sector also consists of a number of independent wholesalers. For the purposes of this report, the ACCC requested data from four of the largest independent wholesalers: Gull, Liberty, Neumann and United. These wholesalers supply their own retail outlets as well as other independent retailers and distributors. The data presented in this section of the report, however, does not include all wholesalers. Therefore the cost and revenue figures discussed in this section are indicative only of the companies that provided data to the ACCC and do not necessarily represent the entire wholesale sector.

Wholesalers generally supply the market via:

- direct supply from wholesalers' terminals (for metropolitan regions), or
- supply through distributors from inland depots (for regional areas).

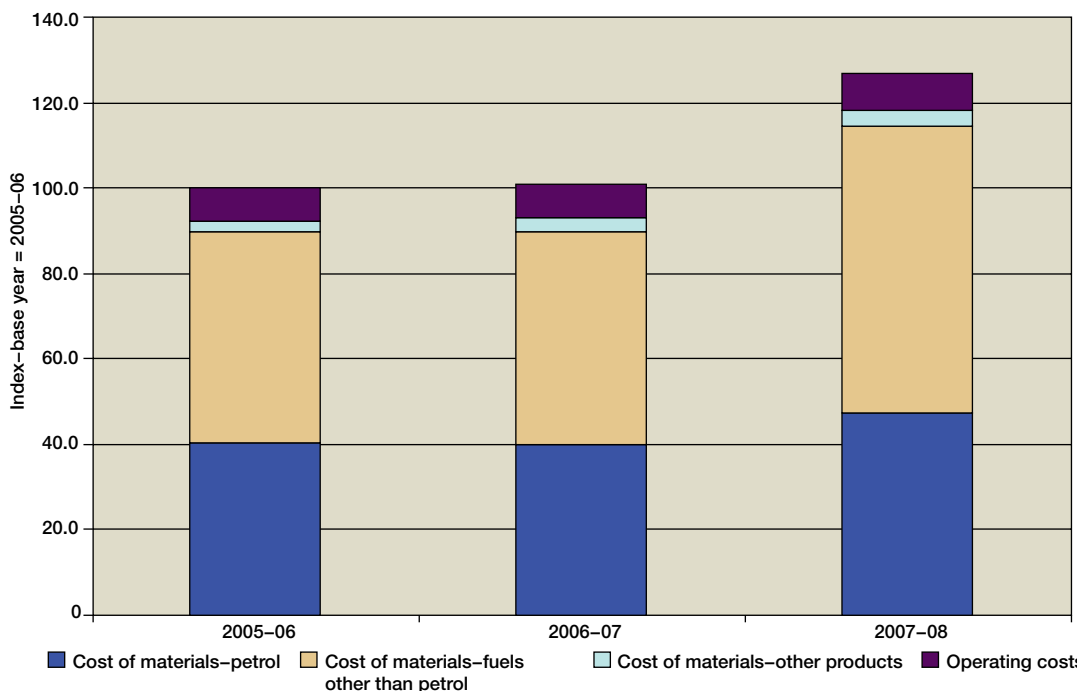
Wholesale costs

In 2007–08 total wholesale costs were about 25 per cent higher than in 2006–07 (chart 9.7). In the previous year, wholesale costs increased by 1 per cent.

In 2007–08 the cost of refined products sold in the wholesale sector represented approximately 93 per cent of total wholesale costs. As with the refinery and supply sectors, operating costs are a small component of wholesale costs.

Chart 9.7 shows the costs of petrol sold in the wholesale sector. In 2007–08 the cost of petrol increased by just over 18 per cent since 2006–07. As the purchase price of petrol is the key component of the cost of materials sold, changes in wholesale costs closely follow changes in the price of unleaded petrol. Reflecting the changing pattern of wholesale sales, the cost to wholesalers of both premium unleaded petrol and ethanol-blended petrol increased by more than the cost of regular unleaded petrol during the monitoring period.

Chart 9.7 Australian wholesale costs: 2005–06 to 2007–08



Source: Derived by ACCC from data supplied by the monitored companies.

Note: Other products include heating oils, lubricating oils, greases, basestocks and bitumen.

* Indexed data includes excise paid by independent wholesalers.

Operating costs in the wholesale sector in 2007–08 were about 7 per cent of total costs. This figure includes price support payments of \$1.1 billion made to retailers by three wholesalers in that year. Price support payments increased by approximately 9 per cent in 2007–08. As a proportion of total costs, however, price support payments were lower in 2007–08 than either of the previous two years.

Capital expenditure at the wholesale level decreased by about 6 per cent in 2007–08, to \$251 million. This followed an increase of approximately 49 per cent for the year in 2006–07.

Wholesale revenue

The refiner–marketers accounted for about 95 per cent of wholesale revenue reported to the ACCC. This figure is likely to overstate the refiner–marketers’ actual position in the market because not all wholesalers have provided information to the ACCC.

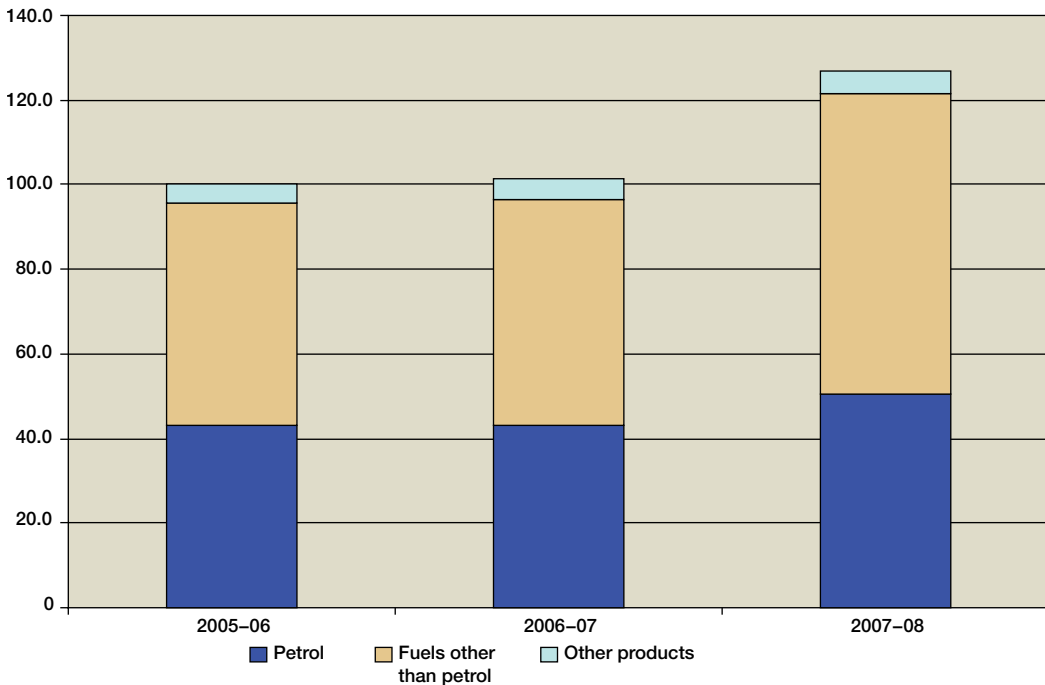
The data provided to the ACCC indicates that in 2007–08 the total revenue of companies operating at the wholesale sector increased by over 25 per cent from the previous year. In contrast, wholesale revenues increased by about 1 per cent between 2005–06 and 2006–07.

Sales of fuels other than petrol accounted for the majority of total wholesale revenue in 2007–08 with sales increasing by 33 per cent from 2006–07. In 2007–08, wholesale revenue from fuels other than petrol represented 56 per cent of total wholesale revenues.

Sales of petrol accounted for just less than 40 per cent of total wholesale revenue in 2007–08 (chart 9.8). This was an increase of just under 17 per cent from 2006–07, which was driven primarily by increases in revenue from the sale of unleaded petrol and premium unleaded petrol of about 11 per cent and 24 per cent respectively. However, ethanol-blended petrol experienced the largest percentage increase in revenue (of almost 300 per cent), albeit from a low base. The rise in revenue from ethanol-blended petrol sales reflects the recent entry of Shell and Mobil along with the increase in volume supplied from other wholesalers during this time.

The refiner–marketers’ wholesale revenue from sales of petrol have declined slightly as a percentage of their total wholesale revenue over the past three years, while the revenue share of fuels other than petrol has risen. The revenue share of other products has remained steady at around 4 per cent.

Chart 9.8 Australian wholesale revenues: 2005–06 to 2007–08*



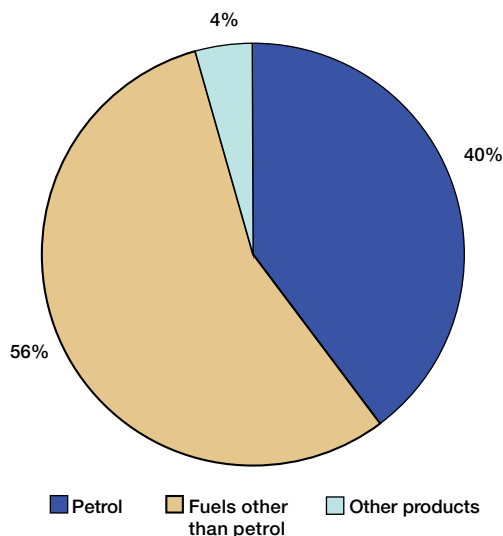
Source: Derived by ACCC from data supplied by the monitored companies.

Note: Other products include heating oils, lubricating oils, greases, basestocks and bitumen.

* Indexed data does not include excise, except for revenue reported by independent wholesalers.

Chart 9.9 shows each revenue stream as a percentage of total revenue in 2007–08.

Chart 9.9 Sources of wholesale revenue in Australia: 2007–08



Source: ACCC data supplied by the monitored companies.

Note: Other products include heating oils, lubricating oils, greases, basestocks and bitumen.

9.2.5 Retail

Retail data has been collected from nine companies divided into the following three groups:

- Refiner–marketers: BP, Caltex and SEP⁵
- Large independent retail chains: 7-Eleven, Gull, Neumann and United⁶
- Supermarkets: Coles Express and Woolworths.

Owing to the large number of small participants in the retail sector, the ACCC did not collect data from all independent petrol retailers. It is therefore important to note that the discussion of costs and revenues at the retail level refers only to the companies listed above and not to the entire retail sector.

Most retail revenue comes from the sale of petrol, only a small amount of revenue comes from other products and services. As sales of other products and services such as convenience store products and car-wash services are becoming increasingly significant to the fuel retailing business, the ACCC has also examined costs and revenue of these products and services.

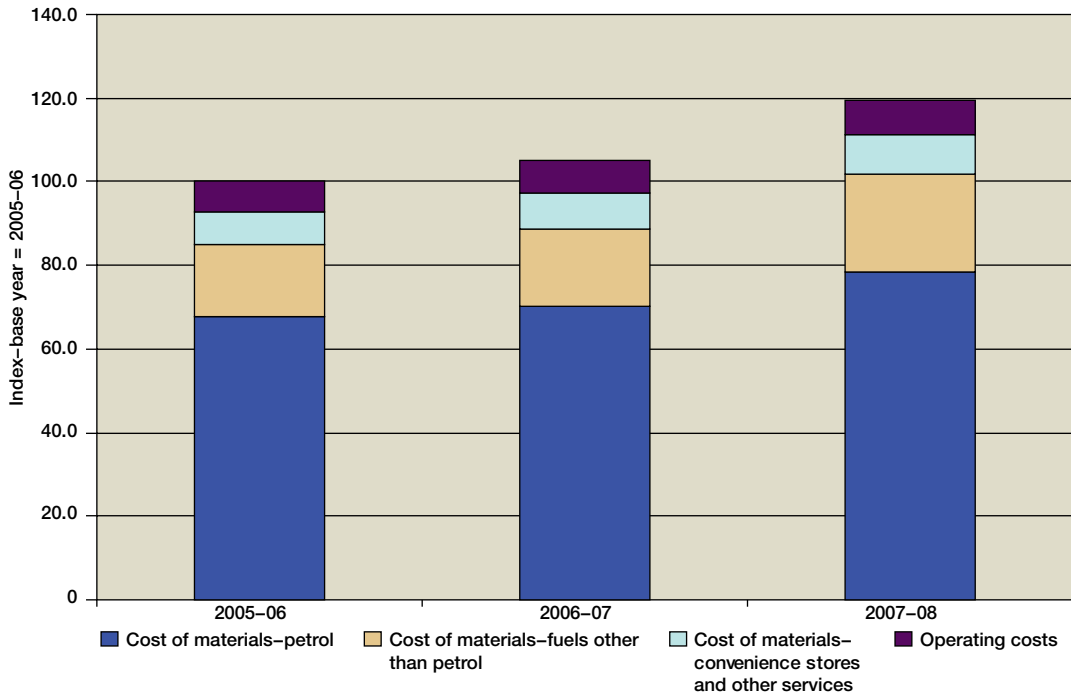
⁵ SEP is a retail franchise of which Mobil has a 50 per cent interest.

⁶ The analysis does not include smaller independent companies, regardless of whether they sell refiner-branded fuel.

Retail costs

Chart 9.10 shows costs incurred over the three financial years to 2007–08 by petrol retailers that provided information to the ACCC. Total retail costs in 2007–08 increased by 14 per cent from 2006–07.⁷ The data suggests that retail costs are driven primarily by changes in the costs of petrol, which represented 66 per cent of retail costs in 2007–08.⁸ In that year, the cost of petrol sold in the retail sector increased by 12 per cent from the previous year.

Chart 9.10 Australian retail costs: 2005–06 to 2007–08*



Source: Derived by ACCC from data supplied by the monitored companies.

* Indexed data includes the cost of excise, except for costs provided by BP.

In 2007–08 retail operating costs were about 10 per cent higher than in 2006–07. Operating costs in 2007–08 represented around 7 per cent of total retail costs. Operating costs have remained steady as a proportion of total costs in the past three years.

Capital expenditure was reported by only four retailers. These companies reported an increase in capital expenditure over the last three years, although three of the four companies had higher capital expenditure in 2006–07 than 2007–08. Capital expenditure by the supermarkets almost doubled between 2005–06 and 2007–08.

⁷ Total costs include non-fuel products; excise has been included for all but one company that did not report excise to the ACCC.

⁸ The remainder was operating costs.

Retail revenue

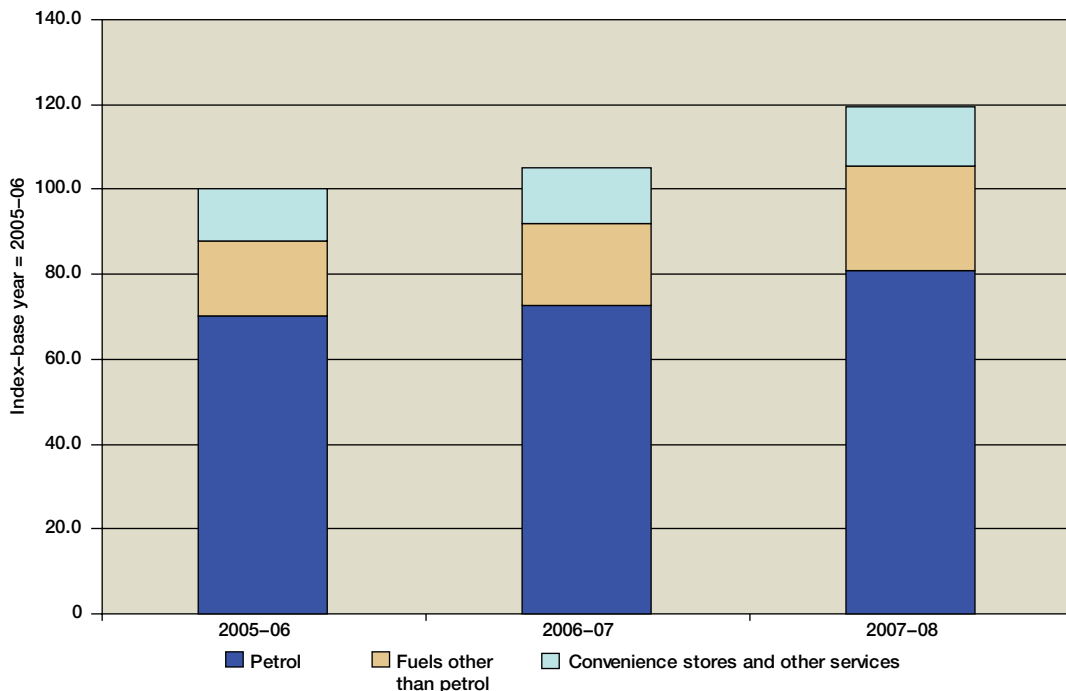
In 2007–08 total retail revenue of companies that provided data to the ACCC was around 14 per cent higher than in 2006–07 (chart 9.11).⁹ Between 2005–06 and 2006–07, retail revenues increased by about 5 per cent.

Fuel sales accounted for 88 per cent of retail revenue in 2007–08, a similar contribution to the retail revenues of each of the previous two years. The balance was made up of sales of convenience store sales and other services. Sales of petrol accounted for the majority of retail revenue in 2007–08 at about 68 per cent of total retail sales. As a percentage of total revenue in the retail sector, however, petrol has decreased by 2 per cent over the three years to 2007–08.

Sales of regular unleaded petrol made up about 77 per cent of revenue from petrol. This accounted for 52 per cent of total retail revenue and was the largest single source of retail revenue in 2007–08. Sales of fuels other than petrol contributed approximately 20 per cent of total revenue, an increase of about 2 per cent since 2005–06. Convenience stores and other services provided about 12 per cent of total revenue in 2007–08, a contribution largely unchanged since 2005–06.

Revenue from sales of ethanol-blended petrol has increased substantially since 2005–06. While it remains a small percentage of total retail revenue, much of the overall growth in total retail revenue from petrol sales was driven by rising sales of ethanol-blended petrol.

Chart 9.11 Australian retail revenues: 2005–06 to 2007–08

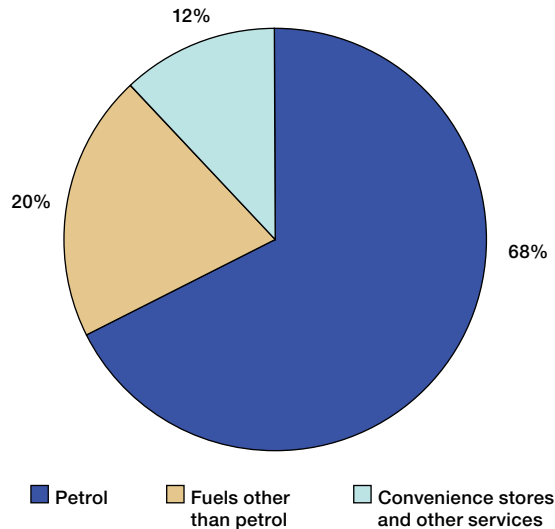


Source: Derived by ACCC from data supplied by the monitored companies.

⁹ Retail revenues are less than wholesale revenues because the latter include sales to commercial and industrial users as well as to downstream retailers.

Chart 9.12 shows each revenue stream as a percentage of total revenue in 2007–08. In particular, it shows that revenue from petrol sales accounted for 68 per cent of revenue.

Chart 9.12 Sources of retail revenue in Australia: 2007–08



Source: ACCC data supplied by the monitored companies.

9.2.6 Concluding comments on costs and revenue

For each sector the ACCC has examined, there has been a substantial increase in both the costs and revenues in 2007–08. These increases are primarily because of increases in the underlying costs of materials, particularly the costs of crude oil. This appears to have affected the costs and revenue of all companies from the refinery through to retail.

9.3 Profits

9.3.1 Data collection and limitations

This section reports on aggregated industry profits, aggregated profits by company type and total profits for petrol in the 2007–08 financial year. The ACCC has also drawn on two studies that have examined profits in the Australian petrol industry over the past decade.

Data collection

Information on profits has been collected for the past three financial years from the refiner–marketers, supermarkets and the large independent chains. The ACCC’s assessment of total profits has been based on both data collected directly from companies and data available from public sources.

Limitations

The data collected by the ACCC on profits requires similar qualifications to the information presented for costs and revenue. It is therefore necessary to exercise caution when examining the data presented for profits.

The ACCC has presented an analysis of movements in profits over time, by company type, with the base year set at 2005–06.

The ACCC has not sought to publish profit information by sector in this report because of issues associated with accounting for costs and revenue in vertically integrated companies.

Much of the financial information that has been provided to the ACCC is commercially sensitive; therefore the discussions of profits are provided as an aggregate rather than for a specific company.

The ACCC intends to work with the monitored companies to further review the data provided before the next report.

Measures of accounting profits

The ACCC has focused on two measures of accounting profitability. These are:

- Earnings before interest and tax (EBIT)—defined as total revenue minus total expenses (excluding tax and interest expenses). Interest and tax expenses depend on the capital and tax structure of a company. Differences in those structures can influence reported profitability and make comparisons between companies difficult. By excluding tax and interest expenses, an assessment of EBIT provides a more useful indicator of a company's operating efficiency.¹⁰ The EBIT measure has been converted into an index from a base year of 2005–06.
- Rate of return on average assets—defined as EBIT divided by average assets and multiplied by 100. Average assets are calculated by adding opening and closing total assets and dividing by two. This measure shows the return a company generates from the employment of all its assets and how efficiently it can generate revenue from those assets. This rate of return measure has been converted into an index from a base year of 2005–06.

The ACCC notes that another common measure of accounting profits is operating profit margin. This measure can be defined as EBIT expressed as a percentage of total sales. To calculate OPM, information in a particular form is required. Since the monitored companies employ a variety of accounting models and organisational structures, these differences have inevitably complicated comparisons of financial performance across vertical layers, companies and groups of competitors. On this basis, the ACCC has not used the OPM measure for this report but it will work further with monitored companies on this measure for the next report.

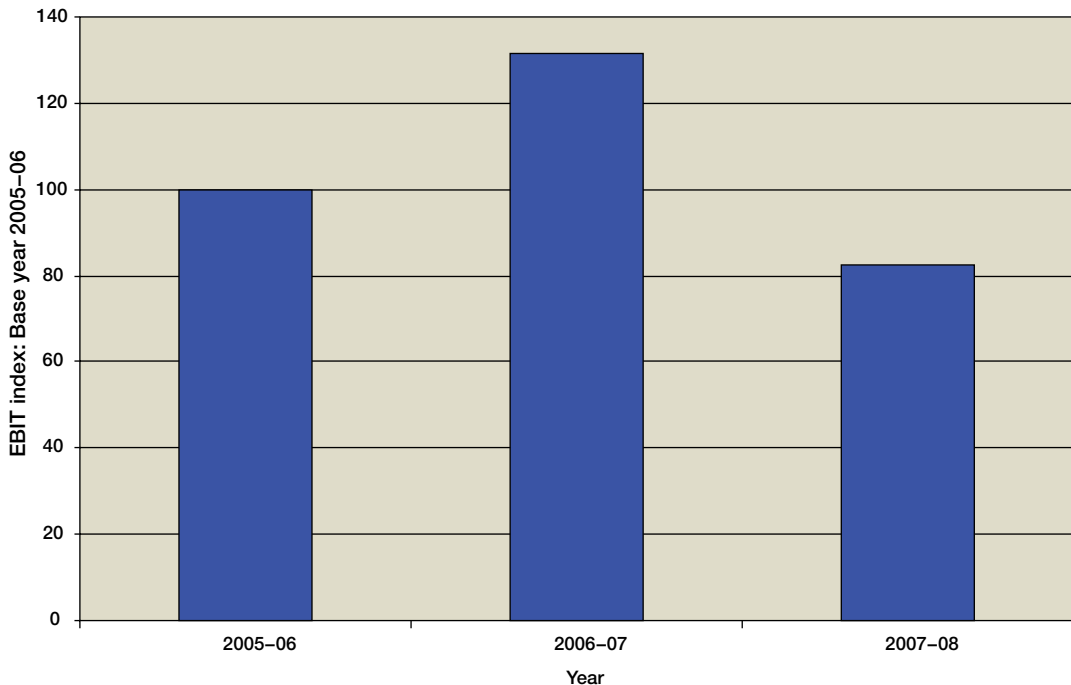
¹⁰ Generally, companies with a high EBIT will be more profitable than those with a low EBIT.

9.3.2 Aggregated industry profits

Chart 9.13 shows total EBIT for all monitored companies expressed as an index. The ACCC observes that even though petrol prices increased substantially in 2007–08, industry profits have not increased.

It should also be noted that there appears to be a degree of volatility in EBIT over the monitored period. This is partly due to volatility in the refining sector. In particular, the chart shows that between 2006–07 and 2007–08 EBIT declined by about 38 per cent and between 2005–06 and 2006–07 EBIT increased by around 32 per cent.

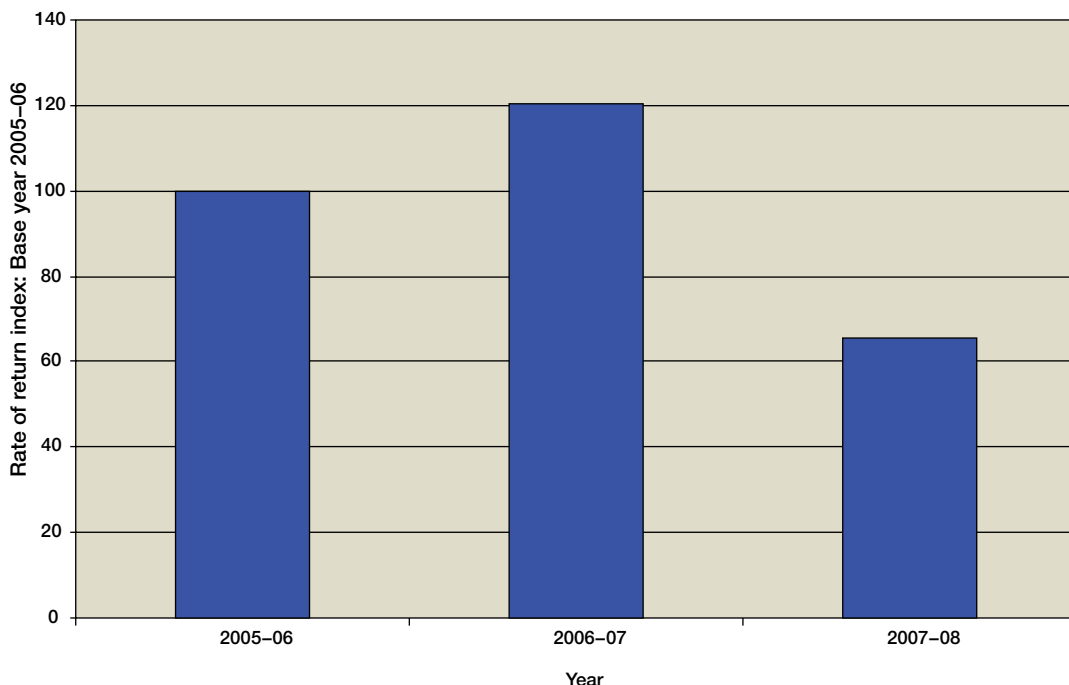
Chart 9.13 Aggregate industry earnings before interest and tax index for surveyed companies: 2005–06 to 2007–08



Source: Derived by ACCC from data supplied by the monitored companies.

Chart 9.14 shows the rate of return on average assets for all monitored companies. In particular, it shows that between 2006–07 and 2007–08, there was a decrease of 45 per cent in the rate of return for all monitored companies. Also, between 2005–06 and 2006–07, there was an increase of just over 20 per cent in the rate of return on average assets.

**Chart 9.14 Aggregate rate of return on average assets index for monitored companies:
2005–06 to 2007–08**



Source: Derived by ACCC from data supplied by the monitored companies.

9.3.3 Profits for petrol in 2007–08

To obtain an indication of the profitability of producing and selling petrol, the ACCC undertook an exercise where it allocated a proportion of the total EBIT and assets reported by the companies to petrol. For each sector of the industry, costs and assets were allocated in proportion to the share of total revenue for petrol.

It should be noted that the profitability of petrol has been estimated using a historic cost basis for the 2007–08 financial year. The ACCC estimates that total EBIT derived from the sale of petrol for all monitored companies for 2007–08 was about \$900 million.

Through this exercise, the ACCC has estimated that the ratio of EBIT to assets for petrol for 2007–08 was about 10 per cent. By comparison, the ratio of EBIT to assets for the Australian Stock Exchange for 2007–08 was 11.2 per cent.¹¹

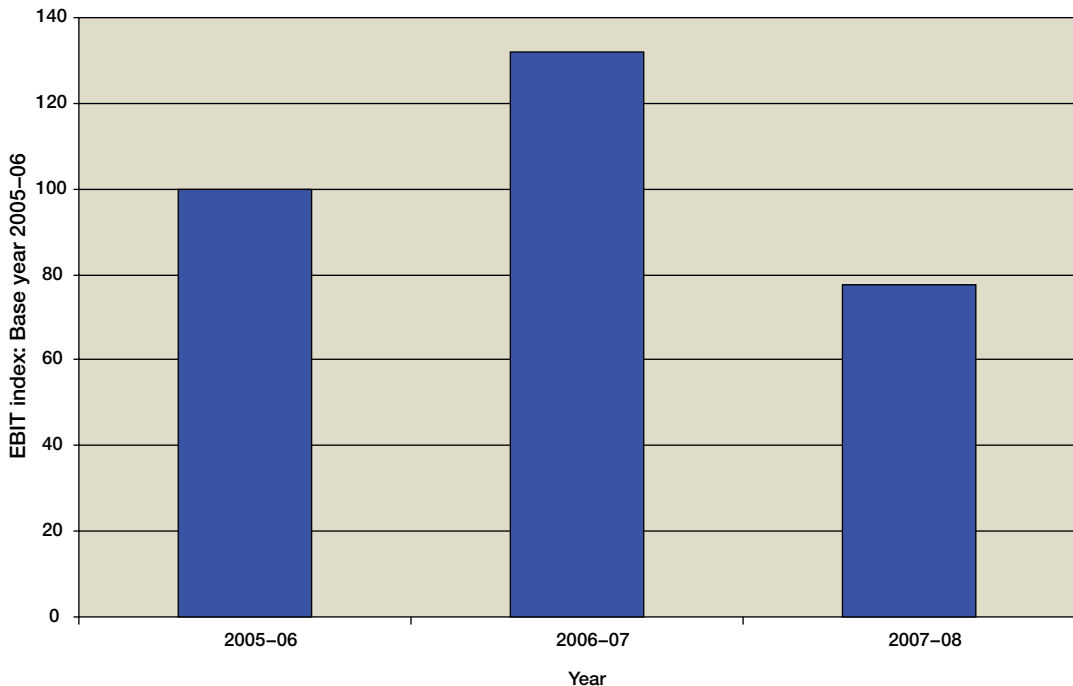
¹¹ Figure provided by Australian Stock Exchange and Capital Partners Ltd. Rate of return calculations for the ASX/S&P 200 is based on average EBIT/total assets.

9.3.4 Refiner–marketers

EBIT for refiner–marketers (chart 9.15) declined by just over 41 per cent between 2006–07 and 2007–08. Between 2005–06 and 2006–07, EBIT increased by 32 per cent.

The ACCC understands that there were issues with the operation of some refineries that may have contributed to the lower level of EBIT in 2007–08. In particular, Caltex had a major planned maintenance shutdown at the Kurnell refinery and unplanned shutdowns at both the Lytton and Kurnell refineries which contributed to lower refinery production in the first half of 2008. Shell encountered an unplanned shutdown at its Clyde refinery in early 2008 which reduced its production of premium unleaded petrol during this period.

Chart 9.15 Refiner–marketers—earnings before interest and tax index: 2005–06 to 2007–08

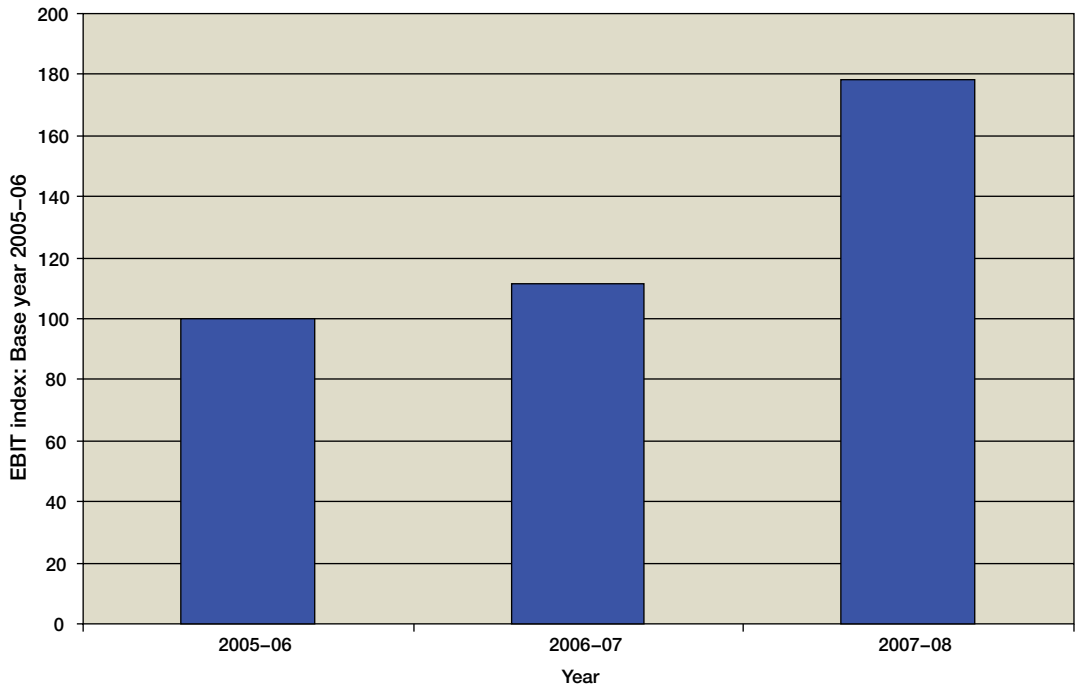


Source: Derived by ACCC from data supplied by the monitored companies.

9.3.5 Large independent chains

EBIT for the large independent chains (chart 9.16) increased by about 61 per cent between 2006–07 and 2007–08. This increase was partly due to acquisitions by two of the independent chains. Between 2005–06 and 2006–07, EBIT increase by just over 11 per cent.

Chart 9.16 Large independent chains—earnings before interest and tax index: 2005–06 to 2007–08

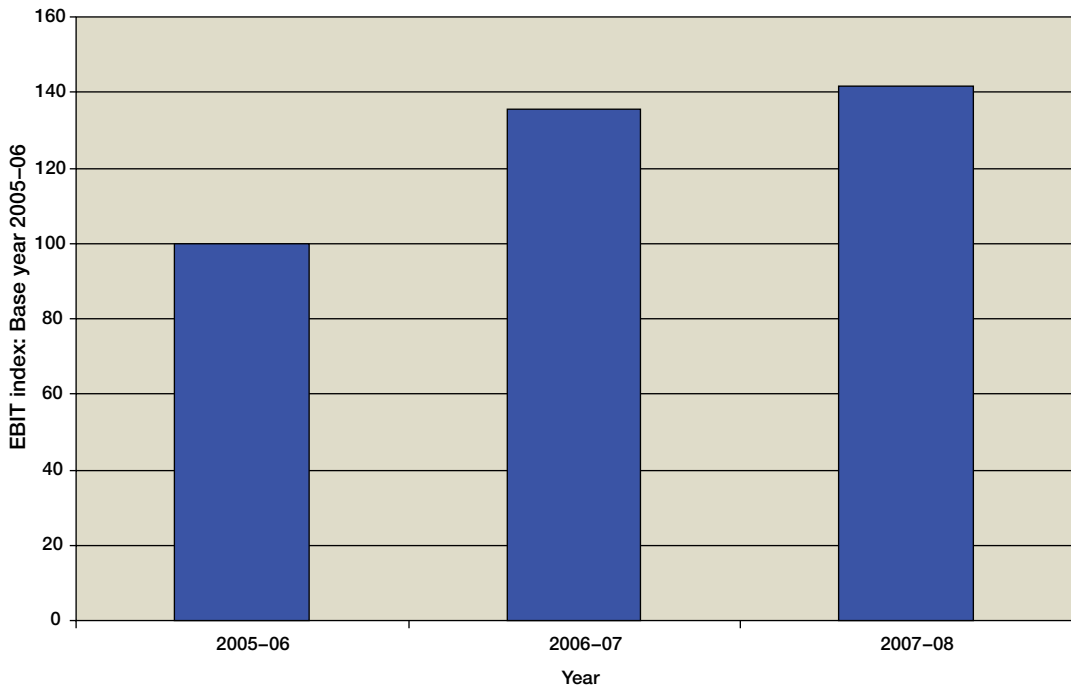


Source: Derived by ACCC from data supplied by the monitored companies.

9.3.6 Supermarkets

EBIT for supermarkets (chart 9.17) between 2006–07 and 2007–08 increased by about 5 per cent. Between 2005–06 and 2006–07 EBIT for supermarkets increased by just over 35 per cent.

Chart 9.17 Supermarkets—earnings before interest and tax index: 2005–06 to 2007–08



Source: Derived by ACCC from data supplied by the monitored companies.

9.3.7 Other studies on industry profits

The profitability of the refiner–marketers across all industry sectors of the Australian petrol industry has been measured in two other studies.¹² Ernst and Young, on behalf of the Australian Institute of Petroleum, measured net profit after tax¹³ for refiner–marketers for the period 1997 to 2001. Further to this, the Australian Institute of Petroleum reported on profits of refiner–marketers for the period 2002 to 2006.¹⁴

The ACCC has observed from these studies that while net profit has been relatively volatile over the past decade, in general there has been an upward trend in refiner–marketer profits since 1997.

In the Ernst and Young report, net profit after tax grew from about \$80 million in 1997 to \$670 million in 1999, before declining to \$140 million in 2000.

Based on information presented in the Australian Institute of Petroleum study, the ACCC observed that by 2002 industry net profit had increased to \$800 million, rising to \$2 billion in 2005 before declining in 2006 to \$1.5 billion. Net profits over the entire period were \$6.5 billion.¹⁵

It should be noted that in 2001 both studies show a negative net profit. This can partly be attributed to a number of one-off costs which included industry restructuring and associated costs.

¹² Ernst and Young, *Downstream oil industry financial survey, January 1997–December 2001*, 2001; Australian Institute of Petroleum, *Downstream petroleum 2007*, 2007.

¹³ Profit after tax is total revenue minus all operating and non-operating expenses less tax.

¹⁴ Both studies reported on a calendar-year basis.

¹⁵ Australian Institute of Petroleum, *Downstream petroleum 2007*, 2007.

9.3.8 Concluding comments on profits

The ACCC observes that industry profits appear to be relatively volatile from year to year. This is demonstrated by the ACCC in its analysis on profits over the monitored period and is supported by other studies on industry profits conducted over the past decade. The level of profits in 2007–08 appears to be lower than in previous years despite the substantial increase in the retail price of petrol.

Appendix A

Letter and direction from the Assistant Treasurer to the ACCC establishing the formal monitoring of the prices, costs and profits of unleaded petrol in Australia



**ASSISTANT TREASURER
AND MINISTER FOR COMPETITION POLICY
AND CONSUMER AFFAIRS**

PO BOX 6022
PARLIAMENT HOUSE
CANBERRA ACT 2600

Telephone: 02 6277 7360
Facsimile: 02 6273 4125

<http://assistant.treasurer.gov.au>

**Mr G Samuel AO
Chairman
Australian Competition and Consumer Commission (ACCC)
GPO Box 520J
MELBOURNE VIC 3001**

Dear Mr Samuel

I am writing to direct the ACCC to undertake formal price monitoring pursuant to section 95ZE of Part VIIA of the *Trade Practices Act 1974*. Attached is a direction to the ACCC to monitor the prices, costs and profits relating to the supply of unleaded petrol products in the petroleum industry in Australia.

When monitoring, you may wish to focus on those parts of the industry where your report on the price of unleaded petrol (December 2007) indicated that competition is less than fully effective.

I also direct the ACCC to give me a report on the monitoring once a year, for 3 years, no later than the anniversary of the date of this letter.

Once the Government has had the opportunity to fully consider the recommendations of the ACCC's report into the price of unleaded petrol, I will write to you again with additional follow-up actions.

Yours sincerely

A handwritten signature in black ink that reads 'Chris Bowen'.

CHRIS BOWEN

17/12/07

Commonwealth of Australia

Trade Practices Act 1974

MONITORING OF THE PRICES OF UNLEADED PETROLEUM PRODUCTS

I, CHRIS BOWEN, Minister for Competition Policy and Consumer Affairs, pursuant to section 95ZE of the *Trade Practice Act 1974*, hereby direct:

- (1) the Australian Competition and Consumer Commission ('the Commission') to monitor prices, costs and profits relating to the supply of unleaded petroleum products in the petroleum industry.
- (2) the Commission to report to me on its monitoring activities in paragraph (1) for a period of three years commencing from the date of this direction.
- (3) the reports of the Commission to be provided annually, no later than the anniversary of the date of this direction.

Dated this *Seventeenth* day of *December* 2007



CHRIS BOWEN

Minister for Competition Policy and Consumer Affairs

Appendix B

Country towns

The ACCC monitors fuel prices in around 110 country towns throughout Australia. This data is collected by Informed Sources on a daily basis.

Table B1 provides a list of country towns and their average annual retail unleaded petrol prices in 2007–08.¹

Table B1: Country towns and average retail unleaded petrol price in 2007–08

	cpl		cpl		cpl
New South Wales					
Albury	139.0	Gilgandra	145.1	Newcastle	138.8
Arimidale	142.4	Goulburn	140.0	Orange	143.6
Ballina	133.3	Grafton	135.3	Parkes	143.0
Batemans Bay	144.6	Gunnedah	143.3	Port Macquarie	142.3
Bathurst	143.0	Hay	145.3	Queanbeyan	138.4
Broken Hill	141.4	Inverell	138.5	Tamworth	142.6
Casino	133.0	Kempsey	142.8	Taree	135.5
Coffs Harbour	142.2	Lismore	133.6	Ulladulla	144.6
Cooma	144.9	Mittagong	140.8	Wagga Wagga	143.0
Cowra	141.0	Moree	139.4	Wellington	145.7
Dubbo	142.5	Mudgee	144.5	Wollongong	138.9
Forbes	143.2	Muswellbrook	140.6	Yass	141.0
Northern Territory					
Alice Springs	154.4	Katherine	145.2	Tennant Creek	158.4
Queensland					
Atherton	132.1	Gladstone	133.2	Rockhampton	133.5
Biloela	133.9	Goondiwindi	133.7	Roma	137.1
Bowen	134.6	Gympie	128.4	Toowoomba	129.5
Bundaberg	132.3	Longreach	139.7	Townsville	131.9
Cairns	133.5	Mackay	131.3	Warwick	130.0
Charters Towers	137.4	Maryborough	129.7		
Emerald	134.2	Mt Isa	134.5		
South Australia					
Clare	138.1	Murray Bridge	137.4	Port Rice	140.3
Coober Pedy	152.7	Naracoorte	139.6	Renmark	134.0
Gawler	136.8	Port Augusta	141.1	Whyalla	143.1
Mt Gambier	140.4	Port Lincoln	140.4		
Tasmania					
Devonport	139.9	Launceston	141.4	Ulverstone	142.0
George Town	142.3	New Norfolk	138.6		

¹ To be included in this table there had to be 300 daily price observations for each location over the year.

Table B1: Country towns and average retail unleaded petrol price in 2007–08 continued

	cpl		cpl		cpl
Victoria					
Bairnsdale	139.2	Hamilton	142.6	Seymour	139.3
Ballarat	136.4	Horsham	142.7	Shepparton	140.7
Benalla	141.0	Mildura	142.7	Swan Hill	143.7
Bendigo	139.0	Moe	141.5	Traralgon	142.9
Cohuna	143.8	Morwell	143.0	Wangaratta	141.1
Echuca	142.8	Portland	142.5	Warrnambool	140.5
Geelong	135.9	Sale	140.7	Wodonga	140.2
Western Australia					
Albany	143.2	Carnarvon	150.5	Kalgoorlie	144.4
Broome	158.1	Esperance	146.7	Port Hedland	156.7
Bunbury	140.6	Geraldton	146.8		

Source: ACCC and Informed Sources

Appendix C

State retail petrol price subsidies in 2007–08

Some state governments provide subsidies at the retail level to reduce the price of petrol paid by consumers.

Table C1 lists all state subsidies for unleaded petrol that were applicable in 2007–08. It describes the amount of the subsidy and how they are applied. Assuming that the full amount of the subsidy in each state is passed on to consumers, the possible effect of the subsidies on average retail prices in the three categories of locations mentioned in chapter 6 (i.e. the five largest metropolitan cities, the three smaller capital cities and country towns) in 2007–08 is estimated.

Table C1: State retail petrol price subsidies in 2007–08 and their possible effect on average retail prices

State	Amount*	Notes	<i>Possible effect of subsidy on average prices</i>		
			Five largest met. cities	Three smaller capital cities	Country towns
	cpl		cpl	cpl	cpl
Qld	8.354	State-wide	-1.8	nil	-1.7
NSW	Between 1.67 and 8.35	Applicable to five zones near the Queensland border	nil	nil	-0.4
SA	Between 0.82 and 3.3	0.82 cpl for towns 50–100km from GPO; 3.3 cpl for towns >100km from GPO	nil	nil	-0.4
NT	1.1	Territory-wide	nil	-0.4	<-0.1
Tas	1.95	Subsidy discontinued from 1 October 2007	nil	-0.2	<-0.1
Effect of subsidies			-1.8	-0.6	-2.5

* This is excluding GST

Appendix D

E10 petrol price monitoring – quarterly reports

This appendix presents the quarterly E10 petrol price monitoring reports for the period October 2007 to September 2008.¹

E10 petrol is unleaded petrol which includes 10 per cent ethanol. The prices monitored are for regular unleaded petrol and regular E10 unleaded petrol (E10), which therefore excludes premium E10 petrol and E5 petrol. E10 petrol prices have been collected from various service stations in a particular location and compared with the regular unleaded petrol prices at those service stations.

Methodological issues relating to the collection and reporting of this price data are outlined in box D1 at the end of this appendix.

December 2007 quarter

Across all the locations reported in the E10 petrol price monitoring:

- in October 2007 the monthly average price for E10 petrol was 3.0 cpl lower than the average price for regular unleaded petrol
- in November 2007 the monthly average price for E10 petrol was 3.0 cpl lower than the average price for regular unleaded petrol
- in December 2007 the monthly average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol.

As a result, over the December 2007 quarter the average price for E10 petrol was 2.9 cpl lower than the average price for regular unleaded petrol. This is 0.1 cpl less than the quarterly differential in the September 2007 quarter.

Price data

Table D1 shows, for the capital cities and regional towns across Australia in aggregate, average monthly prices for E10 petrol, regular unleaded petrol and the difference between the two prices for October, November and December 2007.

Table D2 shows the same data for 29 locations across Australia. Two towns have been added to the locations included in the E10 petrol price monitoring report since the September 2007 quarter report: Coffs Harbour in New South Wales and Bowen in Queensland. Gunnedah in New South Wales has been excluded from this report because of inadequate data during the quarter.

¹ Previous E10 petrol price monitoring quarterly reports for the December 2006 quarter and the March, June and September 2007 quarters are available from the ACCC website.

**Table D1: E10 petrol prices and regular unleaded petrol prices:
October to December 2007 – broad aggregates**

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Regional towns	October	125.5	122.6	2.9
	November	132.1	129.2	2.9
	December	138.2	135.6	2.6
	Average	131.9	129.1	2.8
Capital cities	October	121.5	118.6	2.9
	November	129.7	126.8	2.9
	December	135.5	132.7	2.8
	Average	128.9	126.0	2.9

Source: ACCC and Informed Sources.

**Table D2: E10 petrol prices and regular unleaded petrol prices:
October to December 2007 – specific locations**

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Capital cities				
Sydney*	October	124.9	122.1	2.8
	November	133.1	130.2	2.9
	December	138.8	136.2	2.6
	Average	132.3	129.5	2.8
Melbourne	October	124.6	120.9	3.7
	November	133.1	129.5	3.6
	December	139.1	135.5	3.6
	Average	132.3	128.6	3.6
Brisbane*	October	117.2	114.5	2.7
	November	125.1	122.2	2.9
	December	131.1	128.4	2.7
	Average	124.5	121.7	2.8
Adelaide	October	124.4	121.9	2.5
	November	132.4	129.8	2.6
	December	137.5	134.9	2.6
	Average	131.4	128.9	2.6
Canberra*	October	128.0	125.0	3.0
	November	135.9	132.9	3.0
	December	142.2	139.3	2.9
	Average	135.4	132.4	3.0

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
New South Wales regional towns				
Armidale	October	131.9	128.9	3.0
	November	139.1	136.2	2.9
	December	144.6	142.2	2.4
	Average	138.5	135.8	2.8
Bega	October	131.9	128.0	3.9
	November	136.5	133.0	3.5
	December	144.9	141.9	3.0
	Average	137.8	134.3	3.5
Casino	October	121.1	118.2	2.9
	November	128.0	124.9	3.1
	December	136.9	134.2	2.7
	Average	128.7	125.8	2.9
Central Coast*	October	126.7	123.9	2.8
	November	135.7	132.7	3.0
	December	140.3	137.7	2.6
	Average	134.2	131.4	2.8
Coffs Harbour	October	n/a	n/a	n/a
	November	140.3	137.4	2.9
	December	142.7	139.9	2.8
	Average	141.5	138.7	2.9
Dubbo	October	132.3	129.3	3.0
	November	138.3	135.3	3.0
	December	137.2	134.7	2.5
	Average	135.9	133.1	2.8
Goulburn	October	129.4	126.4	3.0
	November	137.2	134.3	2.9
	December	140.8	138.3	2.5
	Average	135.8	133.0	2.8
Grafton	October	125.9	122.8	3.1
	November	129.7	126.7	3.0
	December	137.8	135.3	2.5
	Average	131.1	128.3	2.9
Kempsey	October	132.1	129.2	2.9
	November	137.8	135.0	2.8
	December	144.7	141.8	2.9
	Average	138.2	135.3	2.9
Lismore	October	122.6	119.6	3.0
	November	129.0	126.0	3.0
	December	137.6	135.1	2.5
	Average	129.7	126.9	2.8

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Muswellbrook	October	128.3	125.3	3.0
	November	135.5	132.5	3.0
	December	141.4	138.6	2.8
	Average	135.1	132.1	2.9
Newcastle*	October	127.8	124.7	3.1
	November	135.9	133.1	2.8
	December	142.0	139.3	2.7
	Average	135.2	132.3	2.9
Tamworth	October	130.8	127.4	3.4
	November	138.7	135.8	2.9
	December	144.3	141.7	2.6
	Average	137.9	135.0	3.0
Taree	October	125.6	122.5	3.1
	November	129.7	126.7	3.0
	December	136.2	133.5	2.7
	Average	130.5	127.6	2.9
Wollongong*	October	127.5	124.6	2.9
	November	135.2	132.0	3.2
	December	142.0	139.5	2.5
	Average	134.9	132.0	2.9
Queensland regional towns				
Bowen	October	123.6	120.5	3.1
	November	129.0	126.0	3.0
	December	136.4	133.5	2.9
	Average	129.7	126.7	3.0
Cairns	October	123.2	120.2	3.0
	November	129.0	126.0	3.0
	December	133.5	130.8	2.7
	Average	128.6	125.7	2.9
Hervey Bay	October	121.9	118.9	3.0
	November	127.8	124.9	2.9
	December	134.4	131.6	2.8
	Average	128.0	125.1	2.9
Mackay*	October	121.1	118.1	3.0
	November	128.7	125.7	3.0
	December	134.9	132.0	2.9
	Average	128.2	125.3	3.0
Maryborough*	October	119.3	116.6	2.7
	November	124.9	122.4	2.5
	December	131.3	128.8	2.5
	Average	125.2	122.6	2.6

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Rockhampton	October	123.0	120.0	3.0
	November	129.0	126.4	2.6
	December	135.5	133.0	2.5
	Average	129.2	126.5	2.7
Toowoomba*	October	120.9	117.9	3.0
	November	127.5	124.8	2.7
	December	132.4	129.6	2.8
	Average	126.9	124.1	2.8
Townsville	October	120.5	117.9	2.6
	November	127.4	124.5	2.9
	December	133.4	130.9	2.5
	Average	127.1	124.4	2.7
Warwick	October	119.1	116.1	3.0
	November	122.1	119.1	3.0
	December	128.2	125.3	2.9
	Average	123.1	120.2	3.0

Source: ACCC and Informed Sources.

* These towns have BP service stations and the average monthly prices for E10 petrol have been adjusted downwards by the ACCC to reflect the fact that consumers may be obtaining a discount of 3.0 cpl off the board price of E10 petrol through the use of a BP Biorewards card.

March 2008 quarter

Across all the locations reported in the E10 petrol price monitoring:

- in January 2008 the monthly average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol
- in February 2008 the monthly average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol
- in March 2008 the monthly average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol.

As a result, over the March 2008 quarter the average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol. This is 0.2 cpl less than the differential in the December 2007 quarter.

Price data

Table D3 shows, for the capital cities and regional towns across Australia in aggregate, average monthly prices for E10 petrol, regular unleaded petrol and the difference between the two prices for January, February and March 2008.

Table D4 shows the same data for 32 locations across Australia. Three towns have been added to the locations included in the E10 petrol price monitoring report: Batemans Bay, Gunnedah and Port Macquarie in New South Wales.

**Table D3: E10 petrol prices and regular unleaded petrol prices:
January to March 2008—broad aggregates**

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Regional towns	January	139.6	136.8	2.8
	February	136.3	133.7	2.6
	March	139.9	137.2	2.7
	Average	138.6	135.9	2.7
Capital cities	January	137.2	134.2	3.0
	February	133.5	130.6	2.9
	March	136.9	134.1	2.8
	Average	135.9	133.0	2.9

Source: ACCC and Informed Sources.

**Table D4: E10 petrol prices and regular unleaded petrol prices:
January to March 2008—specific locations**

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Capital cities				
Sydney*	January	140.5	137.5	3.0
	February	137.8	135.0	2.8
	March	140.0	137.3	2.7
	Average	139.4	136.6	2.8
Melbourne	January	140.8	137.3	3.5
	February	137.1	133.5	3.6
	March	139.7	136.1	3.6
	Average	139.2	135.6	3.6
Brisbane*	January	126.7	123.9	2.8
	February	128.2	125.5	2.7
	March	132.0	129.3	2.7
	Average	129.0	126.2	2.7
Adelaide	January	138.9	136.3	2.6
	February	130.9	128.3	2.6
	March	140.3	137.7	2.6
	Average	136.7	134.1	2.6
Canberra*	January	143.8	140.8	3.0
	February	137.2	134.4	2.8
	March	142.4	139.6	2.8
	Average	141.1	138.3	2.9

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
New South Wales regional towns				
Armidale	January	144.9	142.5	2.4
	February	142.6	140.2	2.4
	March	143.5	141.0	2.5
	Average	143.7	141.2	2.4
Batemans Bay	January	147.3	144.2	3.1
	February	146.3	142.8	3.5
	March	150.3	147.3	3.0
	Average	148.0	144.8	3.2
Bega	January	146.0	142.9	3.1
	February	145.0	142.1	2.9
	March	147.6	144.8	2.8
	Average	146.2	143.3	2.9
Casino	January	135.3	132.4	2.9
	February	131.6	129.1	2.5
	March	135.0	132.4	2.6
	Average	134.0	131.3	2.7
Central Coast	January	142.0	139.1	2.9
	February	138.8	136.2	2.6
	March	141.9	139.2	2.7
	Average	140.9	138.2	2.7
Coffs Harbour	January	144.0	141.2	2.8
	February	141.8	139.0	2.8
	March	145.1	142.3	2.8
	Average	143.6	140.8	2.8
Dubbo	January	145.2	142.7	2.5
	February	143.3	140.8	2.5
	March	145.4	142.9	2.5
	Average	144.6	142.1	2.5
Goulburn	January	143.4	140.9	2.5
	February	138.1	135.5	2.6
	March	143.8	141.3	2.5
	Average	141.8	139.2	2.5
Grafton	January	138.3	135.9	2.4
	February	135.9	133.4	2.5
	March	137.8	135.3	2.5
	Average	137.3	134.9	2.5
Gunnedah	January	145.6	142.8	2.8
	February	145.3	142.5	2.8
	March	145.3	142.5	2.8
	Average	145.4	142.6	2.8
Kempsey	January	145.9	143.0	2.9

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
	February	143.1	140.2	2.9
	March	145.8	142.8	3.0
	Average	144.9	142.0	2.9
Lismore	January	136.0	133.6	2.4
	February	133.3	130.9	2.4
	March	137.5	135.0	2.5
	Average	135.6	133.2	2.4
Muswellbrook	January	142.5	139.7	2.8
	February	140.2	137.4	2.8
	March	143.5	140.7	2.8
	Average	142.1	139.3	2.8
Newcastle	January	143.6	140.7	2.9
	February	139.8	137.1	2.7
	March	142.9	140.1	2.8
	Average	142.1	139.3	2.8
Port Macquarie	January	n/a	n/a	n/a
	February	140.6	139.1	1.5
	March	143.8	142.2	1.6
	Average	142.2	140.7	1.6
Tamworth	January	143.8	141.2	2.6
	February	142.4	139.8	2.6
	March	145.7	143.0	2.7
	Average	144.0	141.3	2.6
Taree	January	134.0	131.3	2.7
	February	132.7	130.0	2.7
	March	137.8	135.1	2.7
	Average	134.8	132.1	2.7
Wollongong	January	144.2	141.6	2.6
	February	141.2	138.7	2.5
	March	143.5	140.9	2.6
	Average	143.0	140.4	2.6
Queensland regional towns				
Bowen	January	137.5	134.7	2.8
	February	137.3	134.5	2.8
	March	135.7	133.1	2.6
	Average	136.8	134.1	2.7
Cairns	January	134.2	131.6	2.6
	February	132.7	130.1	2.6
	March	136.9	134.3	2.6
	Average	134.6	132.0	2.6

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Hervey Bay	January	133.6	130.8	2.8
	February	125.1	122.3	2.8
	March	129.9	127.1	2.8
	Average	129.5	126.7	2.8
Mackay	January	135.5	132.8	2.7
	February	127.3	124.9	2.4
	March	135.2	132.7	2.5
	Average	132.7	130.1	2.5
Maryborough*	January	133.3	131.2	2.1
	February	131.4	129.3	2.1
	March	135.0	132.6	2.4
	Average	133.2	131.0	2.2
Rockhampton	January	135.8	133.3	2.5
	February	133.2	130.8	2.4
	March	137.7	135.1	2.6
	Average	135.6	133.1	2.5
Toowoomba*	January	132.0	129.1	2.9
	February	125.5	122.6	2.9
	March	132.4	130.1	2.3
	Average	130.0	127.2	2.7
Townsville	January	135.5	132.9	2.6
	February	132.0	129.4	2.6
	March	136.1	133.5	2.6
	Average	134.5	131.9	2.6
Warwick	January	130.3	127.5	2.8
	February	128.9	126.1	2.8
	March	133.8	131.3	2.5
	Average	131.0	128.3	2.7

Source: ACCC and Informed Sources.

* These towns have BP service stations and the average monthly prices for E10 petrol have been adjusted downwards by the ACCC to reflect the fact that consumers may be obtaining a discount of 3.0 cpl off the board price of E10 petrol through the use of a BP Biorewards card.

June 2008 quarter

Across all the locations reported in the E10 petrol price monitoring:

- in April 2008 the monthly average price for E10 petrol was 2.7cpl lower than the average price for regular unleaded petrol
- in May 2008 the monthly average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol
- in June 2008 the monthly average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol.

As a result, over the June 2008 quarter the average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol. This is the same differential as in the March 2008 quarter.

Price data

Table D5 shows, for the capital cities and regional towns across Australia in aggregate, average monthly prices for E10 petrol, regular unleaded petrol and the difference between the two prices for April, May and June 2008.

Table D6 shows the same data for 34 locations across Australia. Two towns have been added to the locations included in the E10 petrol price monitoring report: Dalby and Ingham in Queensland.

**Table D5: E10 petrol prices and regular unleaded petrol prices:
April to June 2008—broad aggregates**

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Regional towns	April	143.8	141.1	2.7
	May	149.4	146.8	2.6
	June	158.4	155.8	2.6
	Average	150.5	147.9	2.6
Capital cities	April	141.0	138.1	2.9
	May	147.0	144.0	3.0
	June	157.7	154.9	2.8
	Average	148.6	145.7	2.9

Source: ACCC and Informed Sources.

**Table D6: E10 petrol prices and regular unleaded petrol prices:
April to June 2008—specific locations**

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Capital cities				
Sydney*	April	143.6	140.7	2.9
	May	150.5	147.5	3.0
	June	160.2	157.4	2.8
	Average	151.4	148.5	2.9
Melbourne	April	143.7	140.2	3.5
	May	145.5	142.0	3.5
	June	160.6	157.2	3.4
	Average	149.9	146.5	3.5
Brisbane*	April	136.3	133.5	2.8
	May	141.9	139.1	2.8
	June	152.9	150.1	2.8
	Average	143.7	140.9	2.8
Adelaide	April	143.6	140.9	2.7
	May	150.5	147.7	2.8
	June	160.6	157.9	2.7
	Average	151.6	148.8	2.7
Canberra*	April	147.2	144.3	2.9
	May	152.1	149.3	2.8
	June	161.5	158.6	2.9
	Average	153.6	150.7	2.9
New South Wales regional towns				
Armidale	April	148.4	145.8	2.6
	May	156.7	154.1	2.6
	June	163.6	161.1	2.5
	Average	156.2	153.7	2.6
Batemans Bay	April	151.2	148.1	3.1
	May	157.7	154.6	3.1
	June	163.0	160.0	3.0
	Average	157.3	154.2	3.1
Bega	April	151.1	148.2	2.9
	May	157.7	154.7	3.0
	June	166.8	163.9	2.9
	Average	158.5	155.6	2.9
Casino	April	137.0	134.3	2.7
	May	144.6	141.9	2.7
	June	155.6	152.9	2.7
	Average	145.7	143.0	2.7

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Central Coast*	April	145.2	142.5	2.7
	May	151.0	148.1	2.9
	June	161.3	158.7	2.6
	Average	152.5	149.8	2.7
Coffs Harbour	April	148.3	145.5	2.8
	May	154.4	151.7	2.7
	June	163.0	160.3	2.7
	Average	155.2	152.5	2.7
Dubbo	April	149.1	146.6	2.5
	May	155.9	153.3	2.6
	June	164.1	161.7	2.4
	Average	156.4	153.9	2.5
Goulburn	April	146.4	143.9	2.5
	May	151.8	149.3	2.5
	June	163.3	160.7	2.6
	Average	153.8	151.3	2.5
Grafton	April	141.4	138.9	2.5
	May	149.7	147.2	2.5
	June	157.7	155.2	2.5
	Average	149.6	147.1	2.5
Gunnedah	April	150.3	147.6	2.7
	May	156.7	154.0	2.7
	June	164.7	161.9	2.8
	Average	157.2	154.5	2.7
Kempsey	April	149.6	146.8	2.8
	May	155.2	152.3	2.9
	June	163.6	160.7	2.9
	Average	156.1	153.3	2.9
Lismore	April	140.4	137.4	3.0
	May	146.6	143.6	3.0
	June	156.0	153.6	2.4
	Average	147.7	144.9	2.8
Muswellbrook	April	147.1	144.3	2.8
	May	151.6	148.8	2.8
	June	161.5	158.7	2.8
	Average	153.4	150.6	2.8
Newcastle*	April	146.6	143.8	2.8
	May	151.8	149.0	2.8
	June	162.8	160.0	2.8
	Average	153.7	150.9	2.8

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Port Macquarie	April	148.2	146.8	1.4
	May	150.3	148.7	1.6
	June	163.2	161.6	1.6
	Average	153.9	152.4	1.5
Tamworth	April	148.9	146.2	2.7
	May	156.7	154.1	2.6
	June	164.5	161.7	2.8
	Average	156.7	154.0	2.7
Taree	April	145.1	142.4	2.7
	May	149.1	146.4	2.7
	June	158.7	156.0	2.7
	Average	151.0	148.3	2.7
Wollongong	April	147.9	145.2	2.7
	May	153.6	150.9	2.7
	June	163.2	160.6	2.6
	Average	154.9	152.2	2.7
Queensland regional towns				
Bowen	April	139.3	136.3	3.0
	May	147.0	144.0	3.0
	June	152.9	149.9	3.0
	Average	146.4	143.4	3.0
Cairns	April	140.8	138.0	2.8
	May	145.4	142.9	2.5
	June	154.4	151.8	2.6
	Average	146.9	144.2	2.6
Dalby	April	n/a	n/a	n/a
	May	142.8	139.8	3.0
	June	152.3	149.3	3.0
	Average	147.6	144.6	3.0
Hervey Bay	April	138.2	135.4	2.8
	May	143.8	141.1	2.7
	June	150.3	147.5	2.8
	Average	144.1	141.3	2.8
Ingham	April	139.9	137.0	2.9
	May	142.1	139.1	3.0
	June	150.4	147.3	3.1
	Average	144.1	141.1	3.0
Mackay	April	139.2	136.8	2.4
	May	143.5	141.2	2.3
	June	150.3	147.8	2.5
	Average	144.3	141.9	2.4

Location	Month	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Maryborough	April	138.1	135.6	2.5
	May	144.1	141.7	2.4
	June	153.4	151.0	2.4
	Average	145.2	142.7	2.4
Rockhampton*	April	141.8	139.3	2.5
	May	147.6	145.1	2.5
	June	154.5	151.9	2.6
	Average	148.0	145.4	2.5
Toowoomba*	April	137.7	134.9	2.8
	May	144.5	141.9	2.6
	June	148.8	146.0	2.8
	Average	143.7	140.9	2.7
Townsville	April	139.6	137.0	2.6
	May	143.8	141.3	2.5
	June	153.1	150.5	2.6
	Average	145.5	142.9	2.6
Warwick	April	135.9	133.4	2.5
	May	141.5	139.0	2.5
	June	151.1	148.4	2.7
	Average	142.8	140.3	2.6

Source: ACCC and Informed Sources.

* These towns have BP service stations and the average monthly prices for E10 petrol have been adjusted downwards by the ACCC to reflect the fact that consumers may be obtaining a discount of 3.0 cpl off the board price of E10 petrol through the use of a BP Biorewards card.

September 2008 quarter

Across all the locations reported in the E10 petrol price monitoring:

- in July 2008 the monthly average price for E10 petrol was 2.7 cpl lower than the average price for regular unleaded petrol
- in August 2008 the monthly average price for E10 petrol was 2.9 cpl lower than the average price for regular unleaded petrol
- in September 2008 the monthly average price for E10 petrol was 2.9 cpl lower than the average price for regular unleaded petrol.

As a result, over the September 2008 quarter the average price for E10 petrol was 2.8 cpl lower than the average price for regular unleaded petrol. This is 0.1 cpl higher than the differential in the June 2008 quarter.

Price data

Table D7 shows, for the capital cities and regional towns across Australia in aggregate, average monthly prices for E10 petrol, regular unleaded petrol and the difference between the two prices for July, August and September 2008.

Table D8 shows the same data for 40 locations across Australia. Six towns have been added to the locations included in the E10 petrol price monitoring report: Forster, Moree, Moruya, Moss Vale and Singleton in New South Wales and Dysart in Queensland.

**Table D7: E10 petrol prices and regular unleaded petrol prices:
July to September 2008 – broad aggregates**

Location	Date	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Regional towns	July	161.6	159.0	2.6
	August	151.2	148.3	2.9
	September	152.3	149.4	2.9
	Average	154.8	152.0	2.8
Capital cities	July	160.5	157.6	2.9
	August	148.5	145.5	3.0
	September	150.6	147.6	3.0
	Average	153.2	150.3	3.0

Source: ACCC and Informed Sources.

**Table D8: E10 petrol prices and regular unleaded petrol prices:
July to September 2008 – specific locations**

Location	Date	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Capital cities				
Sydney*	July	160.4	157.6	2.8
	August	149.3	146.5	2.8
	September	151.2	148.3	2.9
	Average	153.6	150.8	2.8
Melbourne	July	161.6	158.2	3.4
	August	151.0	147.5	3.5
	September	152.0	148.4	3.6
	Average	154.9	151.4	3.5
Brisbane*	July	153.5	150.7	2.8
	August	142.6	139.8	2.8
	September	144.8	141.9	2.9
	Average	147.0	144.1	2.8

Location	Date	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Adelaide	July	160.8	158.2	2.6
	August	149.6	146.9	2.7
	September	152.6	149.9	2.7
	Average	154.3	151.7	2.7
Canberra*	July	166.3	163.5	2.8
	August	150.0	146.9	3.1
	September	152.5	149.5	3.0
	Average	156.3	153.3	3.0
New South Wales regional towns				
Armidale	July	165.7	163.1	2.6
	August	155.7	152.9	2.8
	September	155.5	152.5	3.0
	Average	159.0	156.2	2.8
Batemans Bay	July	166.8	163.9	2.9
	August	159.8	156.9	2.9
	September	159.7	156.7	3.0
	Average	162.1	159.2	2.9
Bega	July	168.7	165.8	2.9
	August	157.9	155.1	2.8
	September	159.8	156.8	3.0
	Average	162.1	159.2	2.9
Casino	July	159.6	156.9	2.7
	August	150.5	147.7	2.8
	September	149.3	146.4	2.9
	Average	153.1	150.3	2.8
Central Coast*	July	161.8	159.2	2.6
	August	148.3	145.6	2.7
	September	151.6	149.0	2.6
	Average	153.9	151.3	2.6
Coffs Harbour	July	163.6	160.8	2.8
	August	149.2	146.2	3.0
	September	157.4	154.4	3.0
	Average	156.7	153.8	2.9
Dubbo	July	167.7	165.0	2.7
	August	157.0	154.0	3.0
	September	157.3	154.3	3.0
	Average	160.7	157.8	2.9

Location	Date	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Forster	July	n/a	n/a	n/a
	August	n/a	n/a	n/a
	September	151.2	148.2	3.0
	Average	151.2	148.2	3.0
Goulburn	July	164.7	162.3	2.4
	August	151.1	148.1	3.0
	September	153.1	150.1	3.0
	Average	156.3	153.5	2.8
Grafton	July	163.6	161.1	2.5
	August	153.3	150.5	2.8
	September	154.5	151.5	3.0
	Average	157.1	154.4	2.8
Gunnedah	July	168.3	165.5	2.8
	August	161.8	158.7	3.1
	September	159.9	156.9	3.0
	Average	163.3	160.4	3.0
Kempsey	July	167.1	164.2	2.9
	August	159.2	156.3	2.9
	September	156.9	153.9	3.0
	Average	161.1	158.1	2.9
Lismore	July	160.1	157.6	2.5
	August	151.3	148.6	2.7
	September	149.9	147.0	2.9
	Average	153.8	151.1	2.7
Moree	July	n/a	n/a	n/a
	August	n/a	n/a	n/a
	September	153.3	150.3	3.0
	Average	153.3	150.3	3.0
Moruya	July	n/a	n/a	n/a
	August	n/a	n/a	n/a
	September	157.3	154.4	2.9
	Average	157.3	154.4	2.9
Moss Vale	July	n/a	n/a	n/a
	August	n/a	n/a	n/a
	September	155.9	152.9	3.0
	Average	155.9	152.9	3.0
Muswellbrook	July	165.3	162.6	2.7
	August	154.1	151.1	3.0
	September	153.1	150.1	3.0
	Average	157.5	154.6	2.9

Location	Date	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Newcastle*	July	163.4	160.7	2.7
	August	151.2	148.3	2.9
	September	153.7	150.8	2.9
	Average	156.1	153.3	2.8
Port Macquarie	July	163.0	161.5	1.5
	August	149.4	147.8	1.6
	September	152.8	151.4	1.4
	Average	155.1	153.6	1.5
Singleton	July	n/a	n/a	n/a
	August	n/a	n/a	n/a
	September	159.0	156.0	3.0
	Average	159.0	156.0	3.0
Tamworth	July	167.4	165.0	2.4
	August	156.7	153.9	2.8
	September	157.5	154.6	2.9
	Average	160.5	157.8	2.7
Taree	July	165.3	162.6	2.7
	August	155.7	152.7	3.0
	September	153.9	150.9	3.0
	Average	158.3	155.4	2.9
Wollongong*	July	164.7	162.1	2.6
	August	153.0	150.2	2.8
	September	154.6	151.6	3.0
	Average	157.4	154.6	2.8
Queensland regional towns				
Bowen	July	157.2	154.2	3.0
	August	144.6	141.5	3.1
	September	144.4	141.4	3.0
	Average	148.7	145.7	3.0
Cairns	July	156.3	153.7	2.6
	August	146.9	144.0	2.9
	September	146.4	143.4	3.0
	Average	149.9	147.0	2.8
Dalby	July	156.1	153.2	2.9
	August	147.2	144.4	2.8
	September	146.0	143.7	2.3
	Average	149.8	147.1	2.7

Location	Date	Regular unleaded petrol cpl	E10 cpl	Difference cpl
Dysart*	July	n/a	n/a	n/a
	August	n/a	n/a	n/a
	September	153.2	149.9	3.3
	Average	153.2	149.9	3.3
Hervey Bay	July	n/a	n/a	n/a
	August	147.0	144.0	3.0
	September	146.1	143.1	3.0
	Average	146.6	143.6	3.0
Ingham	July	154.8	151.8	3.0
	August	150.2	147.2	3.0
	September	149.9	146.9	3.0
	Average	151.6	148.6	3.0
Mackay	July	155.2	153.0	2.2
	August	144.7	141.8	2.9
	September	143.2	140.2	3.0
	Average	147.7	145.0	2.7
Maryborough*	July	156.1	153.7	2.4
	August	145.8	143.0	2.8
	September	146.0	143.0	3.1
	Average	149.3	146.5	2.8
Rockhampton*	July	158.5	155.7	2.8
	August	150.7	147.8	2.9
	September	150.4	147.4	3.0
	Average	153.2	150.3	2.9
Toowoomba*	July	154.4	151.5	2.9
	August	143.9	141.1	2.8
	September	141.6	138.6	3.0
	Average	146.6	143.7	2.9
Townsville	July	156.0	153.6	2.4
	August	144.0	141.2	2.8
	September	148.3	145.4	2.9
	Average	149.4	146.7	2.7
Warwick	July	154.6	151.6	3.0
	August	143.7	140.8	2.9
	September	148.7	145.7	3.0
	Average	149.0	146.0	3.0

Source: ACCC and Informed Sources.

* These towns have BP service stations and the average monthly prices for E10 petrol have been adjusted downwards by the ACCC to reflect the fact that consumers may be obtaining a discount of 3.0 cpl off the board price of E10 petrol through the use of a BP Biorewards card.

Box D1: Methodology

Coverage

- The ACCC obtains petrol price data from Informed Sources.
- Informed Sources price monitoring involves sampling. Informed Sources monitors fuel prices at around 5100 service stations in Australia. There are around 6500 service stations in Australia. Therefore, the Informed Sources monitoring covers around 78 per cent of the total number of service stations. All the capital cities and most of the major metropolitan towns are included in the monitoring program, along with a representative sample of country towns.
- In early October 2008 Informed Sources collected E10 petrol prices from around 1030 service stations across Australia. Of this total, around 84 per cent of these service stations are included in the 40 locations covered in the September 2008 quarter.
- Informed Sources collects E10 petrol price data from all states and territories, except Western Australia where E10 petrol is not commercially available.
- The number of service stations selling E10 petrol (and their locations) monitored by Informed Sources is increasing over time.

Data collection

- Informed Sources obtains daily average E10 petrol and regular unleaded petrol prices for the locations included in this appendix. The monthly averages are derived from the daily average prices.
- E10 petrol prices collected are for regular E10 unleaded petrol. They do not include premium E10 petrol (such as Boost 98 from United) or E5 petrol (such as Shell V-Power Racing).
- The daily E10 petrol price for these locations is the average price at service stations selling E10 petrol that are monitored by Informed Sources. The daily regular unleaded petrol price is the average price at those service stations. Therefore, the average regular unleaded petrol price for a particular location included in this appendix may be different from the overall average regular unleaded petrol price in that location.
- Locations are only included in the tables where Informed Sources obtains daily E10 petrol prices from two or more service stations in that location. This is to ensure the robustness of the price data.
- Daily price data is only included in the monthly average where both E10 petrol and regular unleaded petrol prices for that day are available.
- To derive a monthly average price, daily average prices need to be available for at least 14 days in that month.

- Informed Sources may exclude data from some service stations which sell E10 petrol if it has concerns about the robustness and accuracy of the E10 petrol or regular unleaded petrol price data.
- In tables D1, D3, D5 and D7, the average monthly price in the 'capital cities' aggregate is the average of all prices from service stations selling E10 petrol in the five capital cities; and similarly the average monthly price in the 'regional towns' aggregate is the average of all prices from service stations selling E10 petrol in the New South Wales and Queensland regional towns. **Note:** Some of the capital cities and regional towns receive state government subsidies at the retail level. As a result, these average monthly prices will not be typical for any particular capital city or regional town.

Adjustment for BP service stations

- E10 petrol at BP service stations is generally sold at the same price as regular unleaded petrol but consumers can receive a 3.0 cpl discount if they use a BP Biorewards card.
- The locations with BP service stations selling E10 petrol included in the report to which this appendix belongs are marked with an asterisk in the tables.
- Informed Sources collects the board price for E10 petrol, which does not include the Biorewards discount. This means that the price of E10 petrol collected by Informed Sources for BP service stations may not reflect the actual price paid by consumers for E10 petrol at those service stations.
- The ACCC has adjusted the average monthly E10 petrol price data in those towns on the assumption that the full 3.0 cpl discount is passed on at all BP service stations. That is, the average monthly prices for E10 petrol in those towns were adjusted downwards by an amount of 3.0 cpl multiplied by the proportion of BP service stations selling E10 petrol monitored by Informed Sources in each town to the total number of service stations selling E10 petrol monitored by Informed Sources in the town.

Appendix E

Gross indicative retail margins in the five largest metropolitan cities: 2002–03 to 2007–08

Gross indicative retail margins across the five major metropolitan cities were discussed in chapter 8. This appendix provides data for each of the five metropolitan cities individually. It is shown annually for the period 2002–03 to 2007–08 and monthly for 2007–08.¹

¹ Sources for the tables and charts in this appendix are the ACCC, Informed Sources, BP, Caltex, Mobil, Shell, Trafigura and Gull.

Sydney

Average annual retail prices and terminal gate prices (TGPs) in Sydney, and the difference between these prices (that is, the gross indicative retail margin), for 2002–03 to 2007–08 are presented in table E1. The information is also presented on a monthly basis for 2007–08 in table E2. The differences for each of these periods are also presented in chart form.

Table E1 Average annual retail prices, TGPs and margins, Sydney: 2002–03 to 2007–08

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
2002–03	89.7	85.0	4.7
2003–04	91.6	87.1	4.5
2004–05	103.3	98.2	5.2
2005–06	122.6	118.3	4.3
2006–07	123.3	118.5	4.8
2007–08	136.3	131.3	5.0

The average annual margin over the six years was 4.8 cpl. It ranged from a low of 4.3 cpl in 2005–06 to a high of 5.2 cpl in 2004–05.

Chart E1 Annual differentials between average annual retail prices and TGPs, Sydney: 2002–03 to 2007–08

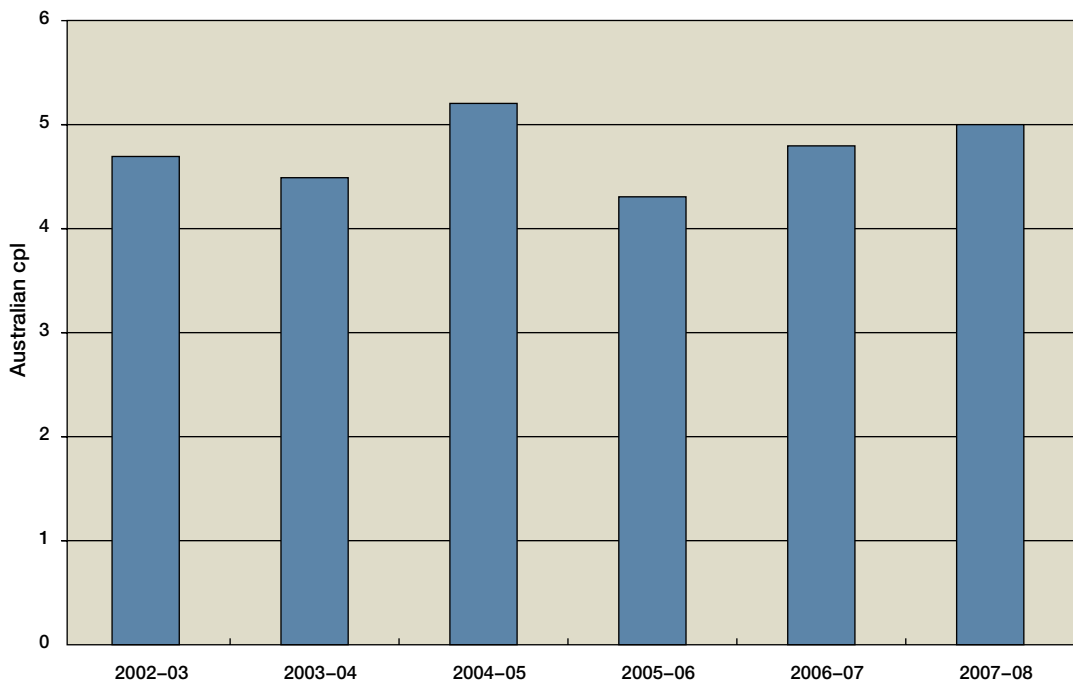
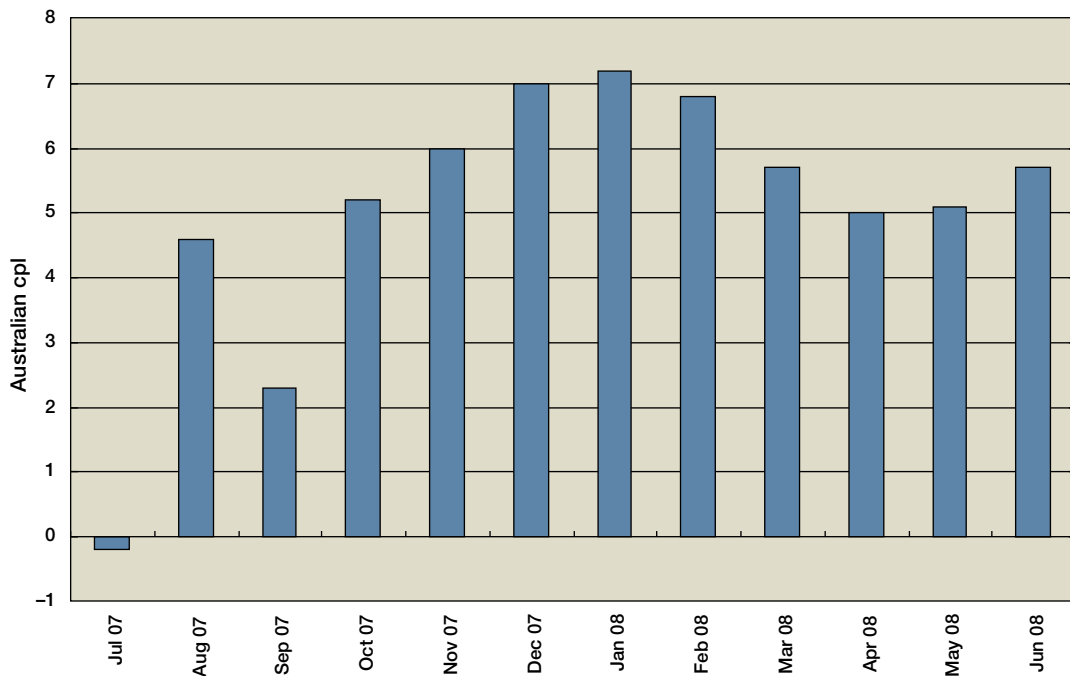


Table E2 Average monthly retail prices, TGPs and margins, Sydney: July 2007 to June 2008

The monthly margin over the year ranged from a low of -0.2 in July 2007 to a high of 7.2 cpl in January 2008.

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
Jul-07	122.0	122.2	-0.2
Aug-07	122.1	117.5	4.6
Sep-07	122.6	120.3	2.3
Oct-07	125.0	119.8	5.2
Nov-07	133.2	127.2	6.0
Dec-07	138.8	131.8	7.0
Jan-08	140.2	133.0	7.2
Feb-08	137.7	130.9	6.8
Mar-08	140.1	134.4	5.7
Apr-08	143.8	138.8	5.0
May-08	150.4	145.3	5.1
Jun-08	160.1	154.4	5.7

Chart E2 Monthly differentials between average retail prices and TGPs, Sydney: July 2007 to June 2008



Melbourne

Average annual retail prices and TGPs in Melbourne and the difference between these prices (that is, the gross indicative retail margin) for 2002–03 to 2007–08 are presented in table E3. The information is also presented on a monthly basis for 2007–08 in table E4. The differences for each of these periods are also presented in chart form.

Table E3 Average annual retail prices, TGPs and margins, Melbourne: 2002–03 to 2007–08

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
2002–03	89.3	84.1	5.2
2003–04	90.6	86.1	4.5
2004–05	101.0	97.3	3.7
2005–06	122.3	117.4	4.8
2006–07	123.5	117.4	6.1
2007–08	136.3	130.7	5.6

The average annual margin over the six years was 5.0 cpl. It ranged from a low of 3.7 cpl in 2004–05 to a high of 6.1 cpl in 2006–07.

Chart E3 Annual differentials between average annual retail prices and TGPs, Melbourne: 2002–03 to 2007–08

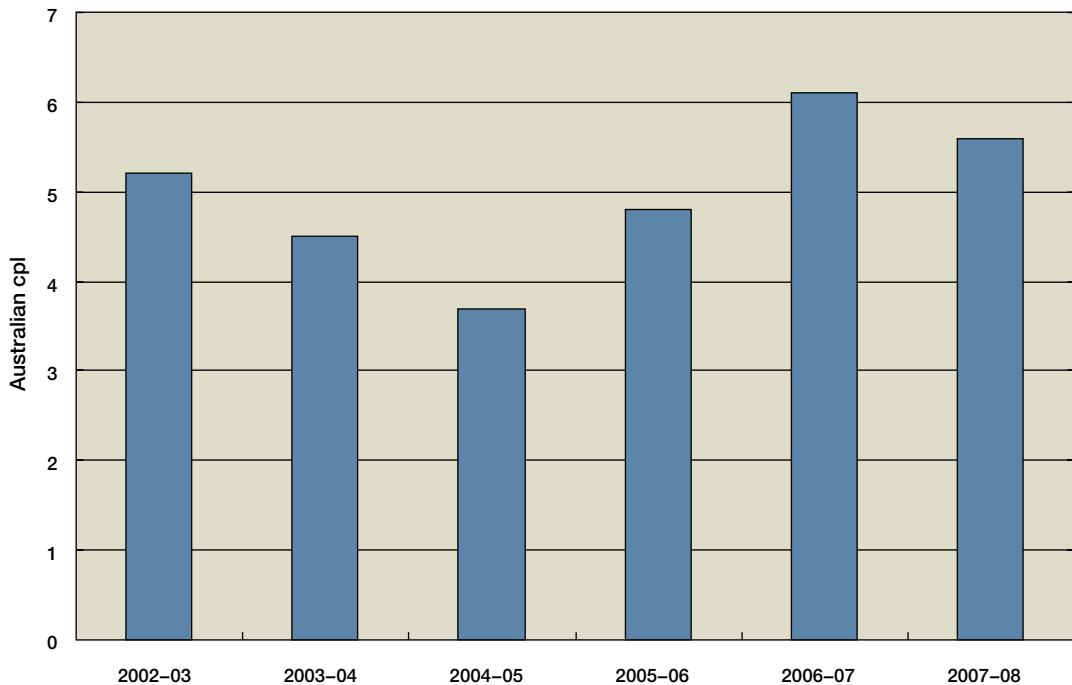
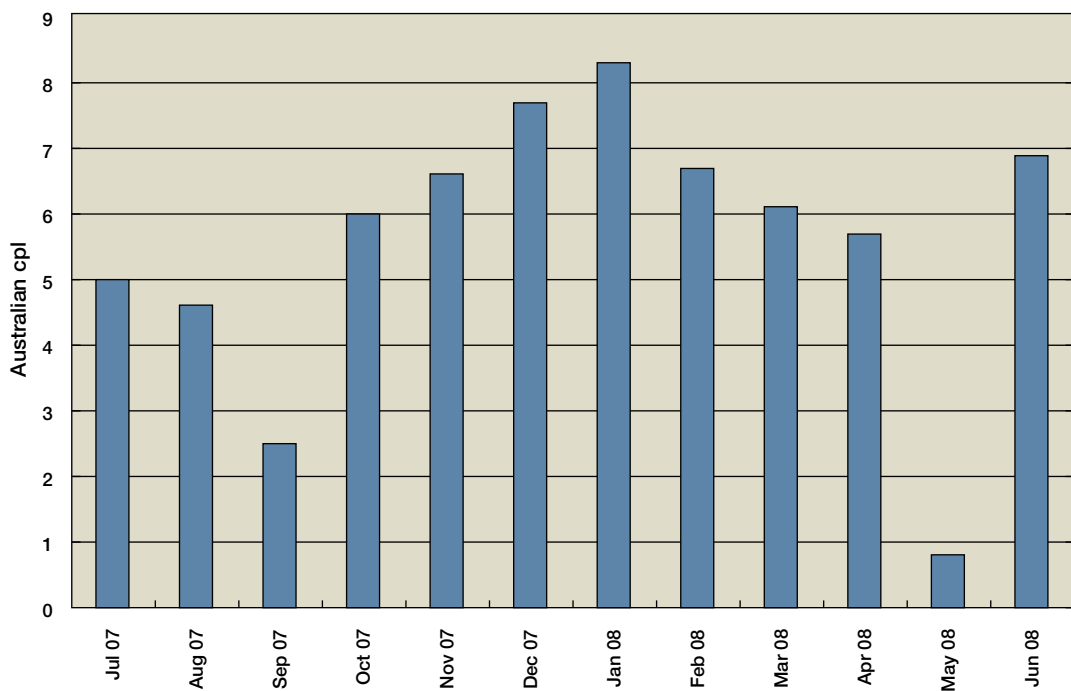


Table E4 Average monthly retail prices, TGPs and margins, Melbourne: July 2007 to June 2008

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
Jul-07	126.7	121.7	5.0
Aug-07	121.5	116.9	4.6
Sep-07	122.3	119.8	2.5
Oct-07	125.3	119.3	6.0
Nov-07	133.3	126.7	6.6
Dec-07	138.9	131.2	7.7
Jan-08	140.7	132.4	8.3
Feb-08	137.1	130.4	6.7
Mar-08	139.9	133.8	6.1
Apr-08	143.9	138.2	5.7
May-08	145.6	144.8	0.8
Jun-08	160.7	153.8	6.9

The monthly margin over the year ranged from a low of 0.8 cpl in May 2008 to a high of 8.3 cpl in January 2008.

Chart E4 Monthly differentials between average retail prices and TGPs, Melbourne: July 2007 to June 2008



Brisbane

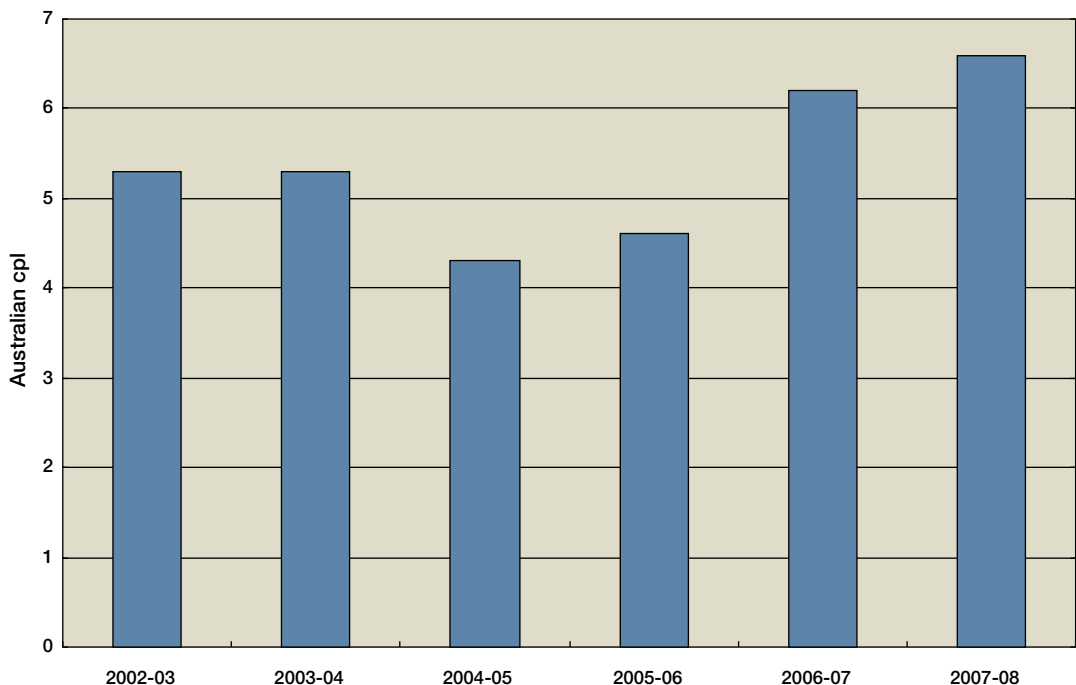
Average annual retail prices and TGPs in Brisbane and the difference between these prices (that is, the gross indicative retail margin) for 2002–03 to 2007–08 are presented in table E5. The information is also presented on a monthly basis for 2007–08 in table E6. The differences for each of these periods are also presented in chart form.

Table E5 Average annual retail prices, TGPs and margins, Brisbane: 2002–03 to 2007–08

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
2002–03	81.8	76.5	5.3
2003–04	83.9	78.6	5.3
2004–05	94.1	89.9	4.3
2005–06	114.5	109.9	4.6
2006–07	116.0	109.8	6.2
2007–08	128.5	121.9	6.6

The average annual margin over the six years was 5.4 cpl. It ranged from a low of 4.3 cpl in 2004–05 to a high of 6.6 cpl in 2007–08.

Chart E5 Annual differentials between average annual retail prices and TGPs, Brisbane: 2002–03 to 2007–08

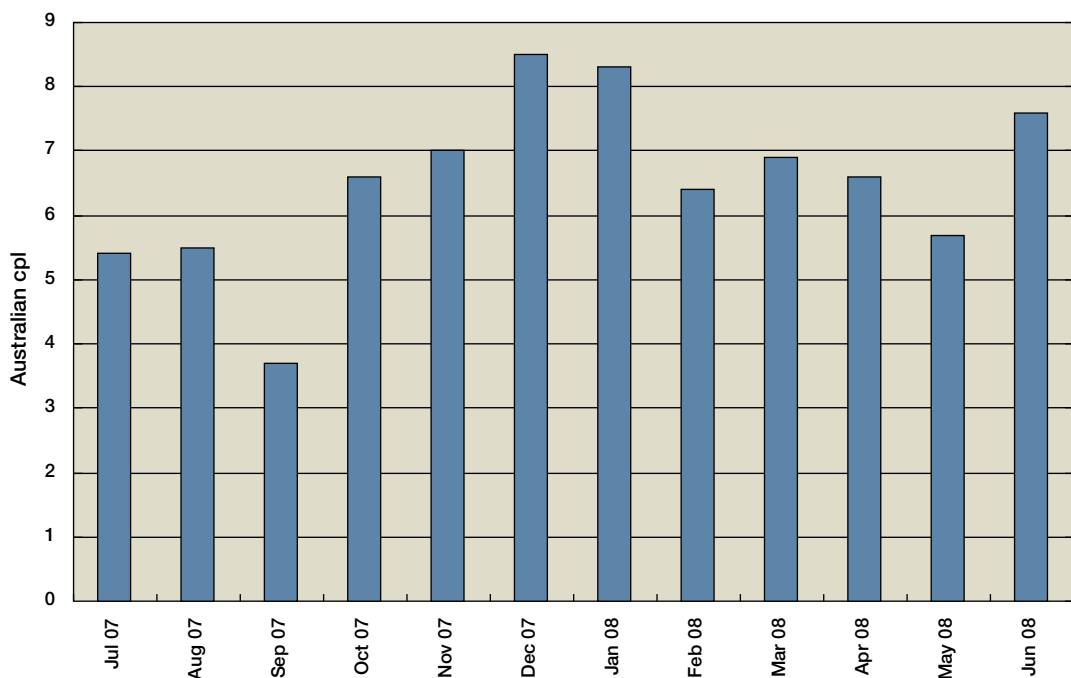


**Table E6 Average monthly retail prices, TGPs and margins, Brisbane:
July 2007 to June 2008**

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
Jul-07	118.5	113.1	5.4
Aug-07	113.7	108.2	5.5
Sep-07	114.5	110.8	3.7
Oct-07	117.1	110.5	6.6
Nov-07	124.9	117.9	7.0
Dec-07	130.8	122.3	8.5
Jan-08	131.8	123.5	8.3
Feb-08	128.0	121.6	6.4
Mar-08	131.9	125.0	6.9
Apr-08	136.2	129.6	6.6
May-08	141.9	136.2	5.7
Jun-08	152.7	145.1	7.6

The monthly margin over the year ranged from a low of 3.7 cpl in September 2007 to a high of 8.5 cpl in December 2007.

**Chart E6 Monthly differentials between average retail prices and TGPs, Brisbane:
July 2007 to June 2008**



Adelaide

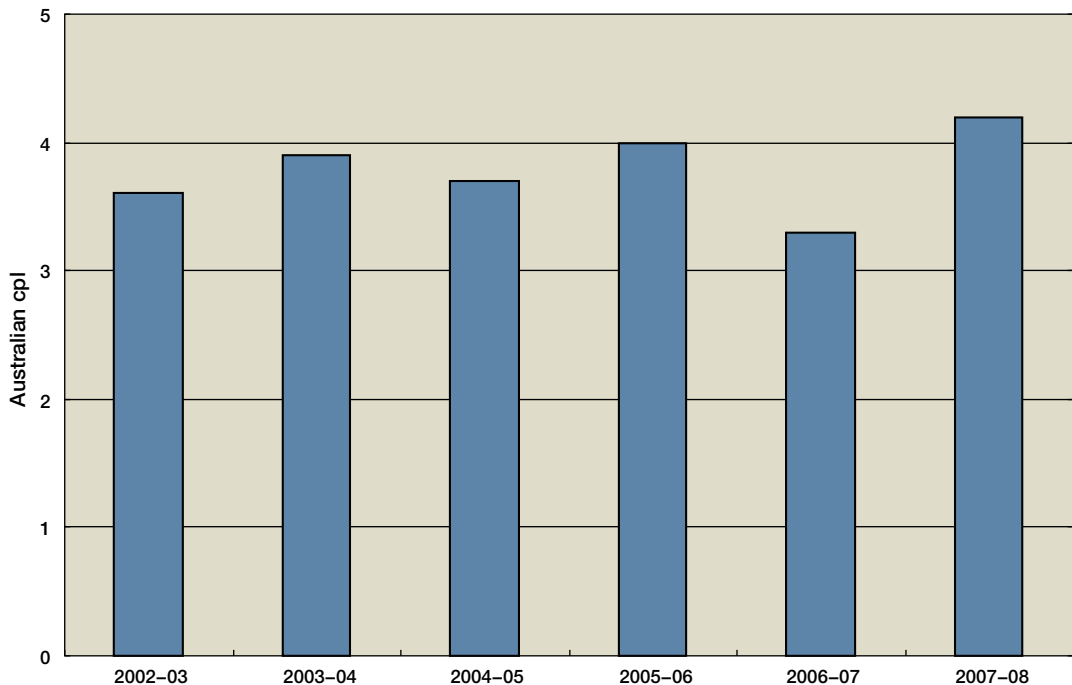
Average annual retail prices and TGPs in Adelaide and the difference between these prices (that is, the gross indicative retail margin) for 2002–03 to 2007–08 are presented in table E7. The information is also presented on a monthly basis for 2007–08 in table E8. The differences for each of these periods are also presented in chart form.

Table E7 Average annual retail prices, TGPs and margins, Adelaide: 2002–03 to 2007–08

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
2002–03	90.4	86.8	3.6
2003–04	93.0	89.1	3.9
2004–05	103.3	99.6	3.7
2005–06	123.7	119.7	4.0
2006–07	122.4	119.1	3.3
2007–08	135.6	131.4	4.2

The average annual margin over the six years was 3.8 cpl. It ranged from a low of 3.3 cpl in 2006–07 to a high of 4.2 cpl in 2007–08.

Chart E7 Annual differentials between average annual retail prices and TGPs, Adelaide: 2002–03 to 2007–08

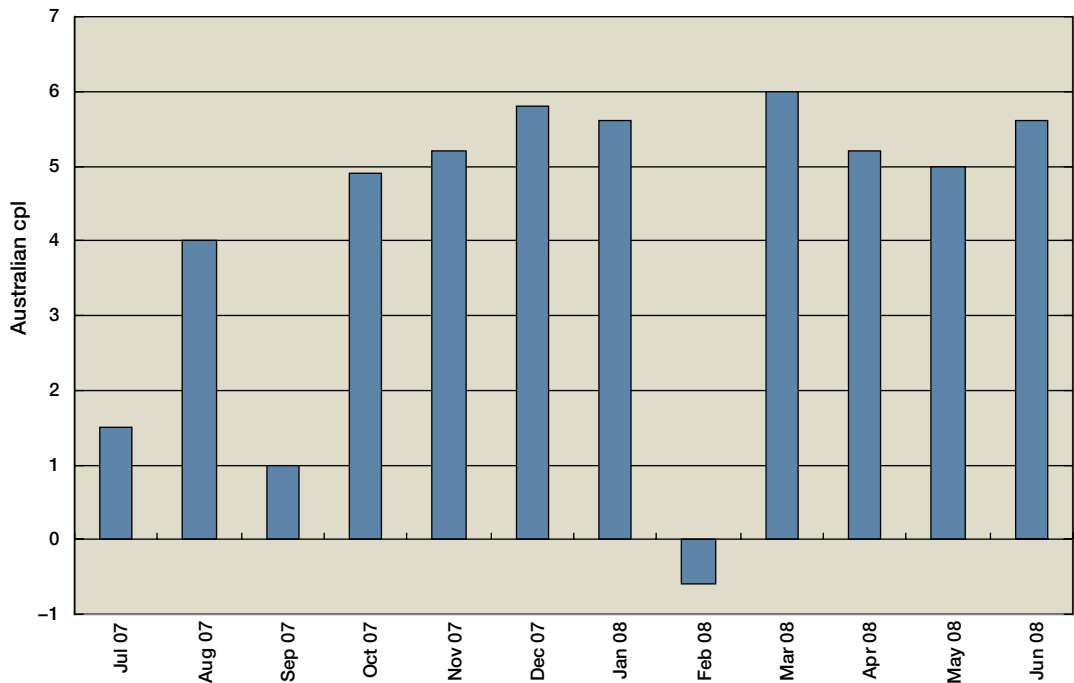


**Table E8 Average monthly retail prices, TGPs and margins, Adelaide:
July 2007 to June 2008**

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
Jul-07	124.0	122.5	1.5
Aug-07	121.7	117.7	4.0
Sep-07	121.4	120.4	1.0
Oct-07	124.9	120.0	4.9
Nov-07	132.5	127.3	5.2
Dec-07	137.7	131.9	5.8
Jan-08	138.8	133.2	5.6
Feb-08	130.2	130.8	-0.6
Mar-08	140.6	134.6	6.0
Apr-08	144.3	139.1	5.2
May-08	150.6	145.6	5.0
Jun-08	160.3	154.7	5.6

The monthly margin over the year ranged from a low of -0.6 cpl in February 2008 to a high of 6.0 cpl in March 2008.

**Chart E8 Monthly differentials between average retail prices and TGPs, Adelaide:
July 2007 to June 2008**



Perth

Average annual retail prices and TGPs in Perth and the difference between these prices (that is, the gross indicative retail margin) for 2003–04 to 2007–08 are presented in table E9. The information is also presented on a monthly basis for 2007–08 in table E10. The differences for each of these periods are also presented in chart form.

Table E9 Average annual retail prices, TGPs and margins, Perth: 2003–04 to 2007–08

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
2003–04	92.3	89.2	3.0
2004–05	101.4	99.6	1.9
2005–06	122.3	119.3	2.9
2006–07	122.9	118.9	4.0
2007–08	135.8	131.6	4.2

The average annual margin over the five years was 2.7 cpl. It ranged from a low of 1.9 cpl in 2004–05 to a high of 4.2 cpl in 2007–08.

Chart E9 Annual differentials between average annual retail prices and TGPs, Perth: 2002–03 to 2007–08

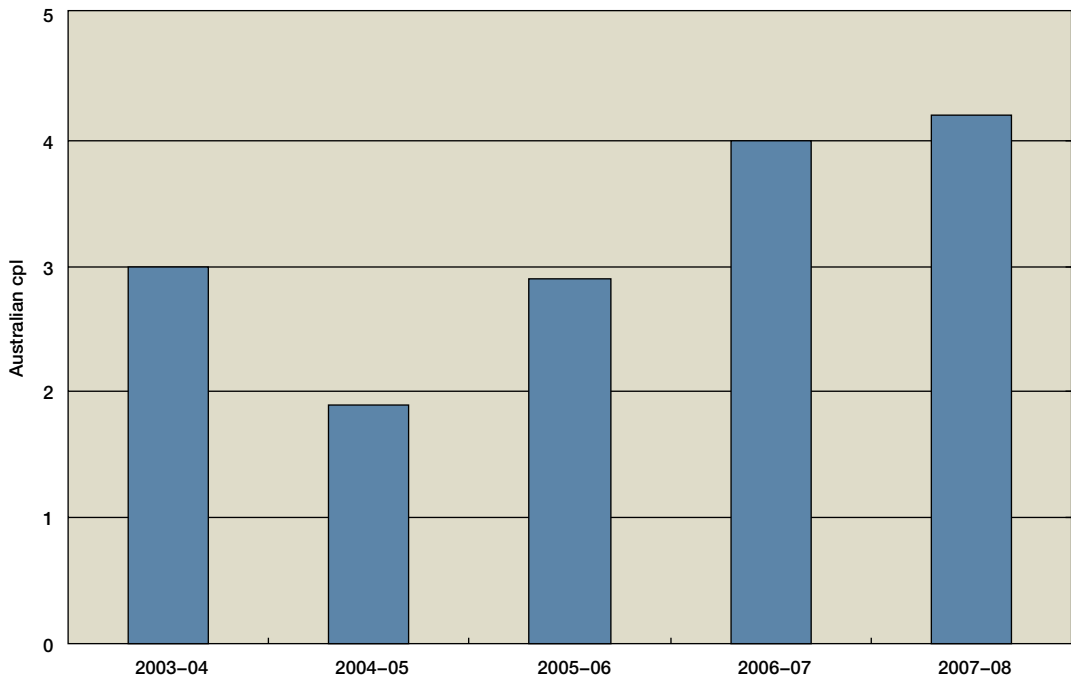
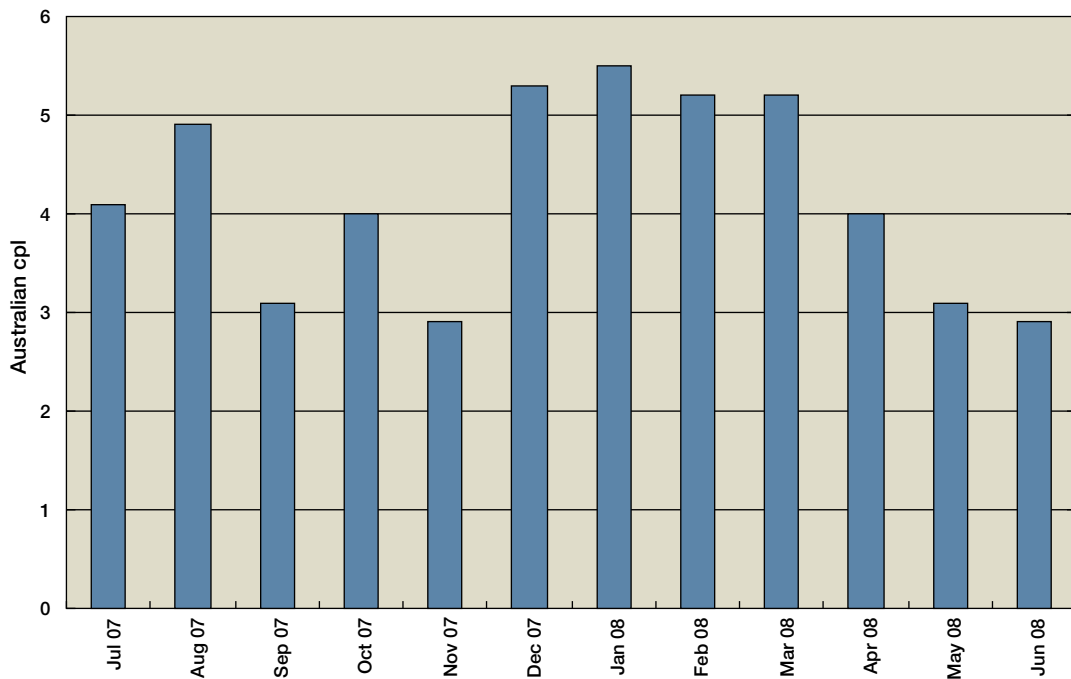


Table E10 Average monthly retail prices, TGPs and margins, Perth: July 2007 to June 2008

	Average retail price	Average TGP	Difference (margin)
	cpl	cpl	cpl
Jul-07	126.8	122.7	4.1
Aug-07	122.7	177.8	4.9
Sep-07	123.8	120.7	3.1
Oct-07	124.3	120.3	4.0
Nov-07	130.5	127.6	2.9
Dec-07	137.2	131.9	5.3
Jan-08	138.7	133.2	5.5
Feb-08	136.2	131.0	5.2
Mar-08	139.8	134.6	5.2
Apr-08	143.1	139.1	4.0
May-08	149.0	145.9	3.1
Jun-08	157.8	154.9	2.9

The monthly margin over the year ranged from a low of 2.9 cpl in November 2007 and June 2008 to a high of 5.5 cpl in January 2008.

Chart E10 Monthly differentials between average retail prices and TGPs, Perth: July 2007 to June 2008



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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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