



# Fuel facts: International prices drive Australia's fuel prices

## How do international prices drive fuel prices in Australia?

Automotive fuel prices (such as petrol, diesel and automotive LPG) in Australia are affected by three main factors: the relevant international benchmark price, Australian Government taxes (including an excise and GST), margins and other costs.

Of these factors, it is changes in the international benchmark prices that are the main driver of retail fuel prices in Australia. They are the largest component reflected in the final retail price, making up about 50 per cent of the price for petrol and diesel and around 70 per cent for automotive LPG. Changes in a benchmark price are driven by international supply and demand for each fuel, which in turn impacts on the price at the pump in Australia. The international benchmarks are traded in US dollars, so Australian retail prices are also affected by the Australian and US dollar exchange rate.

After the international benchmark price, taxes and other costs and margins make up the rest of the retail price. These components do not change as often or by as much as the international benchmark prices. This is because taxes are fixed at set levels by the government, while margins and other costs added by the industry are constrained by competition.

Fuel prices in Australia are also influenced by other factors such as the level of competition in a local market and pricing strategies employed by competitors (such as the regular petrol price cycles in the larger cities).

## International benchmark prices for the Asia-Pacific region

Petrol, diesel and automotive LPG are internationally traded commodities. This means that if local refiners were to receive lower prices in Australia than those available in international markets, local product would be exported rather than sold locally at a lower price. So locally produced fuel is priced at a level that is comparable with what it could be sold for in the Asia-Pacific region.

Australia currently imports around 23 per cent of its petrol, 38 per cent of its diesel and 22 per cent of its LPG.

In Australia, the relevant international benchmark for:

- regular unleaded petrol is the price for refined petrol traded in the Asia-Pacific region called **Singapore Mogas 95**
- diesel is the price for refined diesel traded in the Asia-Pacific region called **Singapore Gasoil with 10 parts per million** (ppm) sulphur content
- automotive LPG is the price for propane and butane traded in the Asia-Pacific region called the **Saudi Contract Price** (Saudi CP).

The Singapore refined petrol and diesel prices are used as Australian benchmarks because Singapore is the closest major refining and marketing centre to Australia. It is also the most likely source of imported petrol and diesel. The Saudi CP is used for automotive LPG because Saudi Arabia is the largest exporter of LPG to the Asia-Pacific region.

The ACCC monitors movements in these benchmark prices and tracks how they are reflected in Australia's wholesale and retail fuel prices. As part of this monitoring, the ACCC has found that fuel prices in Australia have generally moved in line with movements in their benchmark prices.

## Does the price of crude oil influence fuel prices in Australia?

While it is the international benchmarks that most directly influence retail fuel prices, movements in crude oil prices can also have an impact for some fuels.

Although some LPG is produced as a by-product of oil refining, most of it is extracted from natural gas fields. Because of this, crude oil prices have little relevance to LPG.

However, petrol and diesel are both refined directly from crude oil. So the crude oil price is a significant factor in the international benchmark prices for refined petrol and diesel. There are particular crude oil prices that are more relevant to prices in our region.

## What crude oil prices are relevant to Australia?

Among the many different international crude oil prices, two benchmarks are currently most relevant to Australia:

- **Tapis**—which has recently been the most referenced crude benchmark in the Asia-Pacific region, and

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- **Brent**—which is becoming more relevant in all fuel markets, including in the Asia-Pacific region.

Both of these benchmarks are used widely in the Australian petroleum industry.

One crude oil benchmark that is referred to frequently in the Australian media is **West Texas Intermediate** (WTI). WTI is not a good indicator of overall global supply and demand for oil. It is not relevant to Australia because Oklahoma, where the price is set, is constrained by infrastructure and laws that are primarily set up for importing oil into the US. WTI is difficult to export to places like Australia. In turn, this means that movements in the price of WTI do not significantly affect the price of fuel in Australia.

## Why is the refined fuel benchmark more relevant than the crude oil benchmark?

While international refined petrol and diesel prices generally move in line with movements in world crude oil prices, independent supply and demand factors can affect oil and refined fuel prices differently. Increased demand for different oil or refined fuels in particular countries or refinery shutdowns may cause crude and refined fuel benchmark prices to diverge in the short-term.

Chart 1 shows that Australian petrol prices followed the refined fuel benchmark very closely. Most of the difference between the two prices is accounted for by tax.

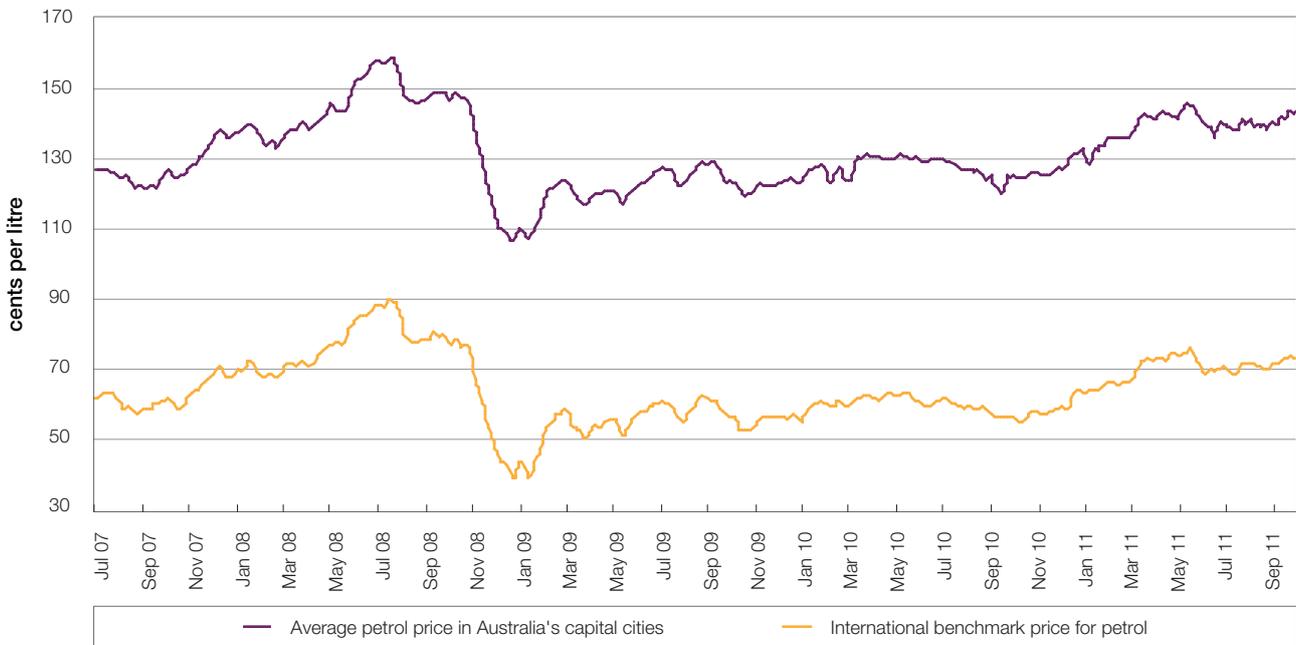
International refined fuel benchmarks, as opposed to crude oil prices, are central to determining Australian retail prices. This is why it is more important to focus on movements in refined fuel prices as opposed to movements in crude oil prices.

## How does the Australian/United States dollar exchange rate impact on fuel prices?

Australian companies buy and sell fuel in US dollars. This means that the value of the Australian dollar (how much it costs to buy US money) can affect retail fuel prices. A strong Australian dollar can lead to lower retail prices; while a weak Australian dollar can lead to higher retail prices.

This is because when the Australian dollar is 'strong' in value, a single Australian dollar buys more US money with which to purchase fuel and fewer Australian dollars are needed. On the other hand, when it is 'weak' a single Australian dollar will buy less US money and so more Australian dollars are needed.

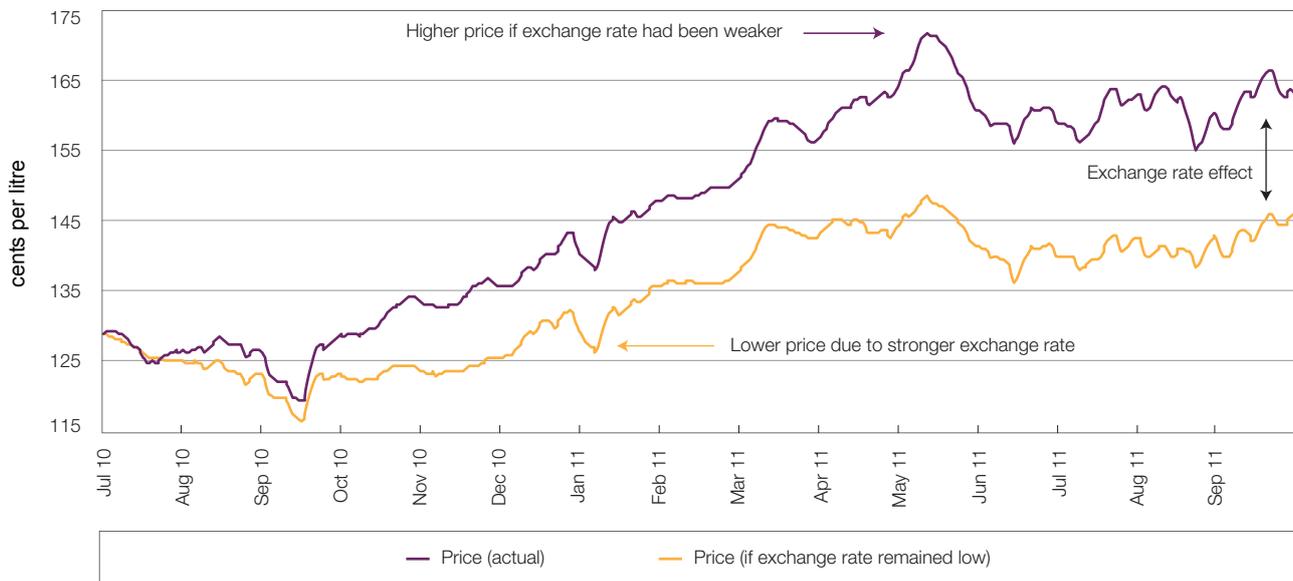
Chart 1: Australian retail petrol price and international benchmark (Mogas 95) price



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

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Chart 2: Average retail petrol price with actual and constant AUD—USD exchange rates



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

In recent times, Australia has benefited from a strong Australian dollar, which has resulted in Australian retail fuel prices having been lower than they might have been if the Australian dollar were weaker. For example, chart 2 shows that retail prices in Australia would have reached a record high in mid-May 2011 if the Australian dollar had not risen in value compared to the US dollar.

## The role of the ACCC

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

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

The ACCC monitors the retail prices of unleaded petrol, diesel and LPG in all Australian capital cities and in around 180 regional locations. It also monitors the prices, costs and profits of the unleaded petrol industry in Australia. It uses this information to examine the competitiveness of retail fuel prices in the interests of consumers.

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

## Where can I find more information?

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

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