

Fuel Prices in Queensland

RACQ compiles a daily report on fuel prices in order to identify when prices are likely to change or when excessive margins are being charged. An excerpt of the report is included in the table below. Following the table are explanations of how each cost component is derived.

Daily Fuel Price Analysis - Brisbane- Thursday 9 April 2009 (\$A cents/litre)

INDICATOR	ULP	PULP	DIESEL
Average Pump Price -observed 9.17 am	111.1	120.8	109.2
Road freight from terminal to bowsers	0.6	0.6	0.6
Retail margin	6.9	12.8	3.1
Indicative wholesale price	103.95	107.75	105.80
GST	9.45	9.80	9.62
Qld. Subsidy	-8.354	-8.354	-8.354
Fed. Excise	38.143	38.143	38.143
Net Gov't take	39.24	39.58	39.41
Temperature Correction	1.7	1.7	0.85
Shipping, Insurance, Storage & Freight	3.41	3.41	3.41
Wholesale Margin	7.2	7.2	7.2
Distribution costs/margins	12.31	12.31	11.46
Refinery Price (lagged - 1 Apr 09)	52.40	55.86	59.43
Refiner margin	8.1	11.5	10.6
Lagged Tapis Oil (\$A cpl) – 1 Apr 09	44.35	44.35	44.35
Tapis Crude Oil (\$A cpl) – 8 Apr 09	44.94	44.94	44.94
Tapis Crude Oil (\$A/barrel) – 8 Apr 09	71.46	71.46	71.46
Exchange Rate (\$A/USc)	69.85	69.85	69.85
Tapis Crude Oil (\$US/barrel) – 8 Apr 09	50.27	50.27	50.27
Last week's peak avg price - 3 Apr 09	115.5	124.3	109.1
Last week's wholesale price – 3 Apr 09	103.01	105.97	106.96
Average retail price for Mar 09	110.5	121.0	108.6
Average retail price Mar 08 to Feb 09	129.9	139.0	146.3

Note: All margins quoted are gross and do not reflect net profit at any stage of the distribution chain.

Retail pump prices

The Average Pump Price is based on numerous electronic records and physical observations supplied by FUELtrac and MotorMouth. To determine retail margins, this average is compared with an indicative wholesale price based on the approximate cost to import refined product from Singapore. A cost of 0.6 cents/ litre is included to represent the average cost of transporting the fuel from the terminal to the bowser.

In southeast Queensland, strong retail competition between oil companies, major supermarket chains and independent operators means that retail prices – and margins – for unleaded petrol (ULP) vary significantly across the week. As in most other mainland capital cities, this is characterised by a regular weekly cycle, in which ULP pump prices currently peak each Thursday or Friday, before steadily falling again over the next seven days. The mid-week price jump signals that retailers are moving to restore full margins after a week of progressive reductions to match or beat their competitors on price.

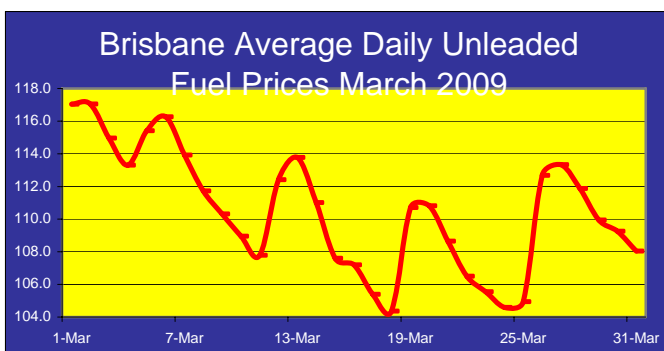
Oil company franchise sites will typically receive price support (effectively rebating some of the wholesale margin) to sustain them through the discounting, and supermarket sites rely on their wholesale buying power. However, independent retailers will generally be reliant on their convenience store sales and/or workshop business to remain profitable when, by Tuesday or Wednesday, ULP is sometimes selling around the price at which they purchased it.

It should be noted that diesel and LPG, which represent small if growing segments of retail fuel sales, are not subject to the price cycle and thus provide retailers with a bigger and more reliable margin while ULP is being discounted.

The importance to the cash flow of virtually all retailers to compete strongly on ULP prices is illustrated by the fact that approximately two-thirds of all ULP retailed each week in southeast Queensland is sold on Monday and Tuesday towards the trough of the cycle.

While even the Australian Competition and Consumer Commission (ACCC) has not been able to completely explain why the weekly price cycle operates as it does in major metropolitan areas of Australia (and other cities overseas), it is generally agreed by informed observers that this form of price volatility results from a degree of retail competition that generally does not exist in regional centres. The RACQ believes that frequent price changes, although annoying to motorists, generally result from competition in the marketplace and are beneficial in keeping overall prices down. Outside southeast Queensland, petrol prices will generally not vary significantly across the week and motorists in those centres will rarely – if ever – have the opportunity to buy at or around wholesale price.

The ability of the major oil companies to sustain regular price support to their franchisees can best be explained by the profitability of their businesses at other stages in the supply chain, including at the wholesale level, where they are collectively dominant.



The 'sawtooth' graph on the left shows the weekly price cycle, with a peak average price each Thursday-Friday, followed by a reduction through to a trough each Tuesday-Wednesday.

Government taxes and subsidies

The net government take is made up of the Federal fuel excise of 38.143 cents/litre, less the Queensland fuel subsidy of 8.354 cents/litre, plus the GST of 10%. At current prices (April 2009), the Federal Government collects around 39 cents/litre – or one-third of the revenue, with GST ultimately being disbursed to the states.

Distribution charges

A range of distribution charges is included in the table, covering all the costs between a refinery in Singapore and the local terminal. These include shipping, insurance, freight, storage and temperature adjustment costs. The wholesale margin incorporates a number of standard components that oil companies charge to cover other business and marketing costs, as well as a profit margin. Large retailers, such as Coles and Woolworths, will pay a lower wholesale price in consideration of the volumes of fuel purchased.

Refiner margin

Singapore refinery prices are used as benchmarks for Australian fuels under an established protocol of world parity prices, which recognises local refiners would sell their products overseas if governments sought to artificially lower prices by regulation in Australia. The refiner margin is the difference between the cost of crude oil and the Singapore refinery price. The refiner margin varies significantly from as little as zero when demand is falling to up to 20 cents a litre when refiners are struggling to keep up with rising demand.

Crude oil costs

The primary input for petrol and diesel is, of course, crude oil. Singapore-refined petrol and diesel (on which Australian automotive fuels are price-benchmarked) is from the local Tapis crude. Like many global commodities, oil is traded in \$US per barrel so the exchange rate is critical to calculating Australian costs. West Texas Intermediate crude oil prices are often quoted in relation to Australian fuel prices; but this is the United States benchmark oil price and not directly relevant here.

Overall price composition

The table shows that crude oil currently accounts for about 50% of the total pump price for ULP and diesel. To this is added the one-third net government take, with all the intermediate costs of refining, distribution and retailing accounting for the remainder. The dominant impact on fuel prices in recent years has been the steep rise in the price of crude oil to mid 2008, and the more recent sharp decline to the end of 2008.

Flow-on of benchmark prices

Changes in Singapore refinery prices for petrol and diesel, averaged over a full week, generally take another week to be reflected in pump prices in southeast Queensland. The time lag is usually greater in regional centres, where sales volumes are lower.

***Contact: Public Policy Department
 Ph: 07 3872 8622***