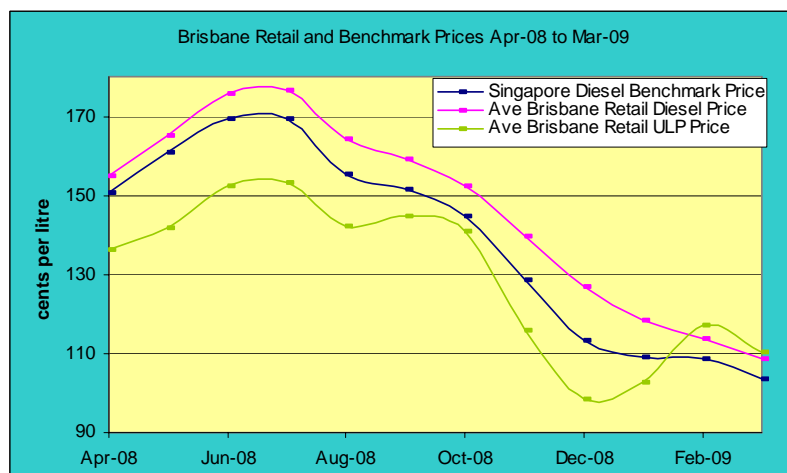


Diesel Prices

During 2008, diesel prices escalated more rapidly than petrol prices, but since the beginning of 2009 diesel prices have dropped considerably. This Fact Sheet examines price movements and discusses key elements of diesel pricing in Australia. For additional information on specific fuel price components, please see RACQ's *Fuel Prices in Queensland Fact Sheet* at racq.com

Recent market activity

During the first half of 2008, the retail price of all fuels increased significantly, largely due to the growth in the underlying oil price, which reached record high prices and traded at more than \$US140 a barrel in July 2008. World oil prices then fell progressively to about \$US40 a barrel by December 2008. From April 2008 to March 2009, Brisbane petrol and diesel prices decreased by 19% and 30% respectively. Australian refinery prices for diesel are linked to a Singapore benchmark price. Comparative movements in the Singapore benchmark price for refined diesel, as well as in petrol and diesel retail prices, are shown below:



Why is Diesel often a different price to Petrol?

Historically, diesel has been cheaper than petrol in Australia; however, when the Government de-regulated fuel prices in 1988, market forces became a key determinant. Fuel prices in Australia are therefore more influenced by global supply and demand factors than actual production costs. The following points describe the various factors affecting diesel and petrol pricing:

1. Petrol and diesel operate in different markets with limited price connectivity. Pricing of both fuels is independently determined by supply and demand factors.
2. Diesel fuel, heating oil and lubricants are all related products because they are obtained from heavier fractions of crude oil. Seasonal changes impact the global demand for heating oil, which in turn influences diesel prices.
3. Petrol comes from lighter fractions of crude oil, dominant in Australian crude oil deposits.
4. Crude oil and tax components of the retail price vary little between diesel and petrol, with oil accounting for about 40% and taxes about 35% of the retail price.
5. Service station operators sometimes discount petrol prices as a competitive tactic to attract customers. This type of discounting doesn't usually occur with diesel pricing, because diesel represents a much smaller retail market than petrol, and many sales are at contract rates rather than the advertised figure.
6. Production costs for diesel have historically been lower than petrol. This is gradually changing as fuel quality standards are tightened (for example, the introduction of ultra low sulphur diesel) to meet more stringent vehicle emission standards.

Are diesel prices really cheaper in New Zealand than Australia?

No. While diesel appears cheaper in New Zealand, in real terms it is a similar price to Australia. Unlike Australia, diesel fuel in New Zealand is not subject to fuel excise when it is purchased. In its place, however, New Zealand has a separate road user charge for all diesel-powered vehicles. In New Zealand, owners of diesel vehicles must obtain a Road User Charge (RUC) licence. Most costs associated with the RUC licence vary according to vehicle type, vehicle weight and distance travelled. For example a 2-tonne RUC licence costs \$NZ36.07 per 1,000 km whereas a 30-tonne RUC licence costs \$NZ5,385.07 per 1,000 km. When these road user charges are taken into account, there is little difference in the price of diesel fuel between Australia and New Zealand.

Diesel prices in other countries

Diesel is cheaper than petrol in some European countries where many people drive diesel vehicles. Greater demand and market share of diesel passenger vehicles in Europe provides economies of scale and exerts price competition that lowers diesel prices. By contrast, Australia sells fewer diesel cars and there is consequently less competitive pressure on diesel prices. This may change over time as sales of diesel cars increase.

Assistance to Industry

Unlike private diesel motorists, many business users can access reduced diesel prices. There are three mechanisms by which the mining, agricultural and freight sectors operating diesel-powered machinery and vehicles can reduce their diesel costs:

1. Commercial fuel contracts at negotiated bulk discount rates.
2. The Fuel Tax Credit Scheme administered by the Australian Taxation Office. Under this scheme, fuel purchased for “on road” business use is partially offset by a fuel excise credit of 17.14 cents off the 38.14 cents a litre charge. This means that owners of diesel-powered heavy vehicles (> 4.5 tonnes GVM) pay an effective excise rate of 21 cents a litre as a notional road user charge, which is little more than half that paid by private motorists.
3. No excise is payable by miners and primary producers for “off road” use, as all fuel used for these purposes has the excise fully offset by fuel tax credits.

Australian Competition and Consumer Commission (ACCC) Jurisdiction

The RACQ hopes the appointment of a petrol commissioner by the ACCC will result in greater fuel price scrutiny. In line with an RACQ suggestion, the commissioner will oversee diesel and LPG fuels as well as petrol.

The RACQ will continue to monitor and analyse all fuel prices on behalf of its members to highlight irregularities and possible price gouging. For more information on fuel prices and to find the cheapest prices in your area, please visit racq.com.

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