

Getting the good oil on petrol prices

THE PRICE OF PETROL IS ALWAYS A HOT TOPIC. A NUMBER OF FACTORS AFFECT THE PRICE OF PETROL INCLUDING CHANGES IN INTERNATIONAL PRICES FOR REFINED PETROLEUM PRODUCTS, MOVEMENTS IN THE AUSTRALIAN/US DOLLAR EXCHANGE RATE, FEDERAL EXCISE AND THE GST, STATE GOVERNMENT SUBSIDIES, PRICE CYCLES AND THE LEVEL OF COMPETITION IN LOCAL MARKETS.



In March 2001 the Australian Government asked the ACCC to look at whether it was feasible to place limitations on petrol and diesel retail price fluctuations in Australia. The resulting report—*Reducing fuel price variability*—was issued on 14 May 2002 and is available to download from the publications section of the ACCC website www.accc.gov.au.

It examined issues such as petrol price cycles in the major metropolitan cities, movements of petrol prices within a day, causes of price cycles, implications of price cycles for consumers, and options to limit price cycles.

The report concluded that it is likely that, overall, consumers benefit from price cycles. In general consumers are better off with variable prices than they are with a fixed (simple average) price. When the price is fixed, consumers have to pay that price and that price alone. However, when the price is variable, consumers can buy at the lower price. They will tend to buy more at the lower price and restrict their purchases when the price is high. The data obtained by the ACCC concerning sales volumes over the price cycle supported this analysis. It showed that on average, around 60 per cent of petrol is sold at prices below the average price of the price cycle, and around 40 per cent is sold above.

As a result the ACCC began an awareness raising campaign to help consumers understand more about price cycles, and help them to buy petrol when prices are relatively low.

For this purpose, the ACCC has a section of its website devoted to petrol price cycles.

Peaks and troughs—the petrol price cycle

In those Australian metropolitan cities which have regular petrol price cycles, the cycle tends to show a sawtooth pattern. In other words prices rise rapidly over a short period and then steadily decrease. However, while these cycles follow a general pattern, they are not totally regular and therefore each cycle is likely to differ.

The ACCC provides information on petrol price cycles on its website to help consumers decide when to buy petrol.

For ACCC analysis, a price cycle is considered to have occurred when there are total price movements between trough and peak of 1.0 cents per litre or more and similar movements between the peak and the next trough.

In a price cycle, the price will move from a trough (the lowest average daily price after a peak) to a peak (the highest average daily price after a trough). The length of a price cycle is the number of days between two troughs.

For more information and details on current price cycles visit www.accc.gov.au.

Country petrol prices

Unlike petrol prices in some of the major metropolitan cities, prices in most country towns do not generally move in cycles. They generally tend to remain broadly stable over the week.

The major factors in determining country prices are movements in the price of international product and the Australian/US dollar exchange rate. These movements tend to influence country prices with a greater lag compared with their influence on metropolitan prices. This is because fuel stocks are replenished less often in the country where less fuel is sold.

It can be misleading to compare country prices with the low point of a metropolitan price cycle. The low price is probably unsustainable, with metropolitan retailers possibly only breaking even or making losses. A more accurate comparison is to compare prices over a longer period (e.g. a month) so that the effect of the price cycles in metropolitan areas can be averaged out.

Data on country petrol prices is available from a number of sources on the internet including the Travelmate website—www.travelmate.com.au—which has information on prices at Caltex and Ampol service stations across Australia and the Shell website at www.shell.com.

Other useful websites

www.fuelwatch.wa.gov.au

The Western Australian Fuelwatch website provides information on prices at service stations in 53 regional locations. It also has information on the best prices and average prices in seven major country towns and a list of the best 50 unleaded petrol prices in non-metropolitan areas.

www.aip.com.au

The Australian Institute of Petroleum website has average weekly retail unleaded petrol prices for 98 country towns throughout Australia (as well as for eight capital cities). The prices are based on information supplied by BP, Caltex and Mobil. There are also charts showing movements in the weekly average price for the past 12 weeks in these towns.

www.nt.gov.au/justice/graphpages/cba/ntfuel/nt_fuel_watch.shtml

The Northern Territory Fuelwatch website lists average weekly petrol prices for Alice Springs, Katherine, Nhulunbury, Tennant Creek, Darwin and Palmerston. A chart showing the movements in unleaded petrol prices in these towns in the current year and previous years is also included.

www.aaa.asn.au

The Australian Automobile Association website provides monthly data on 98 regional and rural centres and eight capital cities around Australia. Historical data is available back to April 1998.

www.racq.com.au

The Royal Automobile Club of Queensland website has monthly data on over 25 country towns in Queensland. The data is available for the previous eight months.

www.caltex.com.au

The Caltex website has information on average monthly prices for city and country, for each state and territory, based on prices set by Ampol and Caltex dealers at the pump. These prices are broken down into their various components (including terminal gate price, GST and freight).

Why country prices are higher than city prices

In 1996 the ACCC held an inquiry into the petroleum products declaration and one of the issues considered was the difference between city and country petrol prices.

The ACCC found that the country generally had higher prices because of a combination of:

- › higher freight costs
- › lower volume
- › less diversity of revenue sources for country outlets
- › higher retail margins
- › lower competition levels
- › the absence of independent retail chains
- › the general absence of wholesale and retail price discounting
- › regular and sometimes deep wholesale price discounting in capital cities which increases the differences with country areas
- › the greater likelihood of conscious price parallelism and possible collusion existing between country dealers and distributors
- › availability of some 'under-the-canopy' discounts and the extent of oil company card sales which can result in retailers applying higher pump prices to offset these effects.

You can order a copy of the ACCC's report *Inquiry into the petroleum products declaration* by ringing the ACCC Infocentre on 1300 302 502.

What is the ACCC's role in relation to petrol prices?

The ACCC is responsible for administering the *Trade Practices Act 1974*.

The main purpose of the Act is to promote competition and efficiency in markets within Australia and to protect consumers from unlawful anti-competitive conduct and unlawful market practices.

Since petrol and diesel prices were deregulated in 1998, the ACCC is no longer required to endorse maximum wholesale prices. Therefore, petrol wholesalers are free to set their own prices based on market conditions.

However the ACCC still retains an informal monitoring role and closely monitors petrol prices in metropolitan areas and around 110 country towns. Information on prices in the five major capital cities is available on the 'petrol price cycles' page of the ACCC website at www.accc.gov.au.