

## Why we pay what we pay for unleaded petrol

### As the Aussie dollar recently hit record highs, motorists are asking about the price at the pump

The price of unleaded petrol is a source of frustration for many Australian motorists. Every driver has learnt to keep one eye on the road and the other on the service station price board.

In the past few years Australian consumers have discovered how online shopping and a strong Aussie dollar can combine to open a world of cheap consumer goods. But to the frustration of many consumers, the price of petrol has remained stubbornly high.

High petrol prices generally result in calls for the ACCC to investigate and bring relief to Australian motorists. But the ACCC does not set prices.

The ACCC's primary role is to ensure businesses comply with the Competition and Consumer Act, which prohibits conduct that is misleading or anti-competitive.

It also monitors fuel prices and reports on the competitiveness of the industry. To do this it monitors prices in the capital cities as well as over 150 regional centres and country towns across Australia.

There are three main components to the price of petrol at the pump: the international price, excise and taxes, and other costs (which includes transport, rent, wages, and wholesale and retail margins). The ACCC monitors all three components to see if motorists are paying a competitive price.

Fuel is traded internationally, which means Australian motorists must be willing to pay the price it costs to import it. Australia imports a significant amount of its fuel and must pay the international market price, which makes up 50 per cent of the price at the pump.

Motorists' confusion about international prices is understandable. Australia's fuel prices reflect the price at the regional refining hub in Singapore and the prices reflect the price of crude oil delivered there.

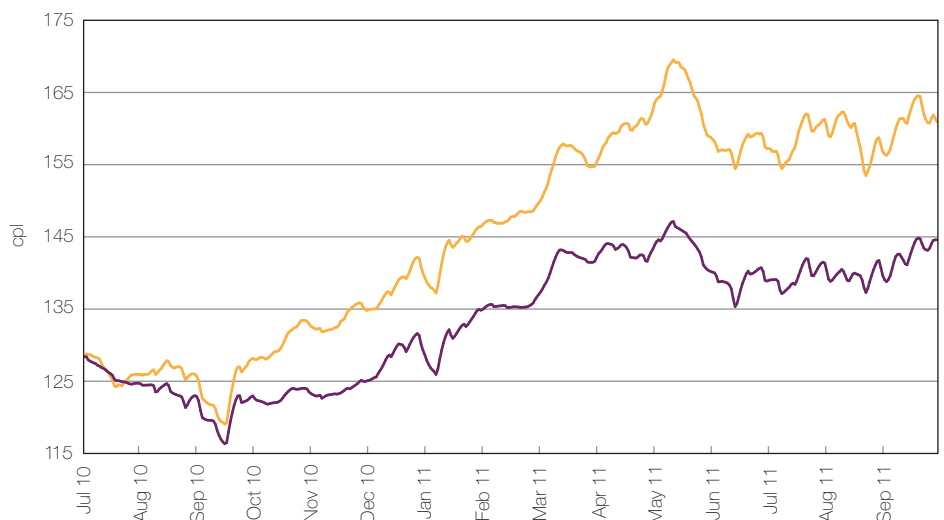
The problem is, the media tend to report the price of crude oil based on the West Texas Intermediate (WTI) price, which is not relevant to fuel prices in Australia.

Crude oil and refined fuel prices in Singapore are affected by demand in our region, which is increasing to meet the needs of the boom, while in the US and Europe demand has slumped due to economic problems.

The ACCC monitors global oil prices and works with other regulators across the globe to ensure the prices in Australia are competitive.

The exchange rate influences the price at the pump. As fuel is traded internationally in US dollars, the strength of the Australian dollar influences how much petrol will cost. A strong Aussie dollar will generally see lower petrol prices.

The graph below illustrates just how important the exchange rate is to the price at the pump. The red line shows the average petrol price had the Australian dollar stayed fixed at the July 2010 exchange rate. The blue line shows the average price was far lower as the Australian dollar pushed the price down.



But the exchange rate is only one factor in the price of fuel. The taxes imposed by the Australian Government also contribute to the price at the pump.

The government charges fuel excise at a fixed rate of 38.14 cents per litre and 10 per cent GST. This is the fourth-lowest tax on petrol in the OECD, with most other developed countries charging a higher excise and a higher sales tax.

Of the 29 OECD countries, 25 have higher fuel taxes. Seventeen of those are more than double Australia's and Turkey levies a fuel tax almost three times higher than Australia (see table below).

The ACCC also monitors other costs and margins the retailers and wholesalers add to the price of petrol. These combined contribute only 12 per cent to the price at the pump and cover wages, rent, other business costs and a profit component at the wholesale and retail level.

It's worth noting that retailers and wholesalers sell huge quantities of petrol with only a few cents per litre set aside as profit.

An average petrol station will generate a large proportion of its turnover, but only a small amount of its profits from petrol sales. This means many service stations are dependent on sales inside their stores, such as magazines and chocolate bars.

When individual retailers lower prices to attract customers, their competitors must match those prices to avoid losing customers.

Like everything else, it pays to shop around to get the best deal. Motorists that seek out the lowest prices drive competition in the fuel industry and push prices lower.

These competitive factors generally combine to produce a healthy level of competition in the Australian marketplace, as wholesalers and retailers are committed to selling the maximum volume of petrol.

The ACCC will continue to monitor the local, national and international fuel sector to ensure prices remain competitive and Australian motorists get value for money.



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