

SENATE STANDING COMMITTEE ON ECONOMICS QUESTION
(Supplementary Budget Estimates 20 October – 21 October)

Question: SBT 70

Topic: Fuel Pricing

Senator Bushby asked:

1. Can the ACCC outline the benefits to motorists that have been achieved since the petrol commissioner was established?
2. Can the ACCC explain why there are weekly fluctuations in the retail fuel price of between 15 and 20 cents, on average?
3. Why are average fuel prices in cities like Canberra and Hobart higher, on average, than Sydney, Melbourne and Brisbane?
4. If the petrol market is competitive, then why hasn't the number of independent fuel retailers increased?
5. What is the ACCC doing about fluctuations in wholesale fuel distribution costs, in particular the discrepancy between wholesale prices for different retail operators?

Answer:

1. The ACCC, since being directed to formally monitor petrol prices and since its Chairman directed a Commissioner to lead the ACCC's response to petrol related issues (the Petrol Commissioner), has provided consumers with greatly enhanced transparency regarding fuel prices, costs and profits, and has significantly increased the accountability of the industry in setting prices for motorists. This work has also provided decision makers and industry participants with a much greater understanding of fuel industry drivers.

The ACCC's 2009 *Monitoring of the Australian petrol industry* report addresses many of the issues raised in the above questions. The report is available at:

<http://www.accc.gov.au/content/index.phtml?itemId=906872>

2. Fluctuations of retail petrol prices of between 15 and 20 cents per litre (cpl) are likely to be due to the operation of retail petrol price cycles. The cycles generally occur weekly in Sydney, Melbourne, Brisbane, Adelaide and Perth (they may occur in other major centres from time to time and may also be absent in the capital cities from time to time).

The price cycles operate where retailers lower their prices to attract customers until they approach a point where they may be at or below their cost. Prices are then increased sharply (sometimes up to 20 cpl) and the pattern is generally repeated the following week.

3. In general, prices are higher in the smaller capitals such as Canberra and Hobart (and in regional centres and country towns) than in the large capital cities because of a number of factors, including:
 - number of service stations; this can affect the degree of local competition
 - lower volumes of fuel sold; this can lead to higher costs per litre of fuel sold

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- distance/location factors; for example, there may be greater freight charges for delivery of fuel and other storage costs away from the refineries and ports
- lower convenience store sales; which is a significant source of income for many fuel retailers.

4. ACCC analysis as reported in its annual monitoring report shows that the retail fuel market is relatively competitive with fairly low margins.

Over the past forty years there has been a rationalisation of the number of retail fuel outlets in Australia. More recently, we have seen some of the refiner-marketers withdraw from the retail market (Shell and Mobil have effectively withdrawn from retail) and their place is being filled by specialist retailers such as 7-Eleven which recently purchased Mobil's retail sites. A number of other independent chains such as Neumann Petroleum and United are also expanding their presence in the retail fuel market and providing additional competition in the retail market.

5. Wholesale prices are set by the market and, as with any market, wholesale fuel prices vary for a number of factors including cost of supply and volumes purchased. ACCC analysis has shown that movements in wholesale fuel prices in the Australian market closely follow international benchmarks. If there was evidence of any anti-competitive behaviour in wholesale fuel markets then the ACCC would take action under the Trade Practices Act.