CHAPTER 2

Sourcing, Refining and Distributing Petrol

Introduction

2.1 The broad structure of the petrol industry and its individual components has been explained in a number of past inquiries. Evidence submitted to this inquiry clearly demonstrated the complex structure of this industry. That complexity is no doubt one of the reasons for many of the public misapprehensions and 'urban myths' about how fuel at the bowser is priced.

2.2 The price of crude oil on the international market and the factors impacting upon how much is paid for this commodity has received considerable attention in recent times in the media. The media has intensely reported on factors such as instability in the Middle East and natural occurrences such as Hurricanes Katrina and Rita, but there are many other factors also affecting the price we pay for petrol.

2.3 While some of these more obvious influences on petrol prices seem to be reasonably well understood, what is less clear is how the process of converting oil into a useful form like petroleum affects the price, why domestic prices are strongly influenced by what is happening on the international market and how Australia's high fuel quality standards affect the price of petrol. These matters are examined below.

2.4 This chapter frames a number of questions raised in evidence about refining and wholesaling petroleum products, the petroleum industry and most importantly, what really determines the price of petrol.

How the price of petrol is arrived at

2.5 Some witnesses expressed concern about fluctuations in the price of crude oil that allegedly do not correspond to fluctuations in the price of petrol at the pump. Whilst acknowledging the impact of changes in the international market on the price of crude oil, the NRMA pointed out that these factors alone cannot account for the total rise in the price of petrol at the pump:

> Since January 2005 the price of Malaysian Tapis has increased from AUS$59.70 per barrel to $97.70 per barrel. This translates to an increase of around AUS$38 per barrel or 24 cents per litre. Assuming that this cost was fully passed on to motorists and there was additional GST levied the average retail price of unleaded petrol in Sydney, in June 2006, would have been around 123.4 cents per litre.[1]

2.6 The Australian Taxi Industry Association also asserted this view:

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1 NRMA, *Submission 33*, p. 15.

> The ATIA remains to be convinced that some oil industry participants are not using upward price movements in world oil prices to disguise opportunistic price gouging in the domestic retail market. In particular, the impact of upward movements in world oil prices appears to be more immediate and extensive than occurs in the event of downward movements.[2]

2.7 The Victorian Government submitted that Australia's domestic market should be investigated to ensure Australian-based oil companies are not exploiting increases in the international price of oil:

> Rising margins are a concern particularly so when international prices have risen significantly, the majority of domestically consumed fuel is produced and refined locally and the industry is undergoing changes in competition. A detailed examination of oil company prices and margins at this time is needed to ensure that the market is operating efficiently and that consumers are not being disadvantaged.[3]

2.8 Evidence to the inquiry highlighted that the relationship between the sale of oil on the international market and its impact on prices paid at the bowser does not appear to be clearly understood by many in the community. The result of this lack of understanding is suspicion, distrust and resentment towards the petroleum industry.

2.9 The structure of the petroleum industry is complex and highly integrated at all levels, from the domestic refinery, wholesale, distributor and retail levels through to the international market. The strong links between Australia's domestic petroleum market and the international market extends far beyond simply the trade of crude oil. Assessing the extent to which Australia's major oil companies (BP, Caltex, Mobil and Shell) influence the price of petrol, it is necessary to understand the key factors affecting the price of petrol in Australia, namely:

- the international crude and petroleum product markets;
- translation of international prices back into Australia's domestic market; and
- factors in the Australian petroleum industry that influence retail petrol prices.[4]

2.10 Australia consumes a very small proportion of the world's oil production. Of the oil consumed within Australia, about 35 per cent is sourced from domestic oilfields whilst the remainder is imported.[5] One of the reasons Australia does not refine a greater proportion of locally produced oil is because this oil is classified as light, sweet crude and so commands a higher price on the international market. It is

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2 Australian Taxi Industry Association, *Submission 27*, p. 2.

3 Victorian Government, Minister for Consumer Affairs, *Submission 10*, p. 2.

4 Mr John Tilley, Australian Institute of Petroleum (AIP), *Committee Hansard*, 27 September 2006, p. 3.

5 AIP, *Submission 50*, p. 2.

also unsuitable for producing the full range of heavier products produced by some refineries including bitumen, lubricating oils and greases.

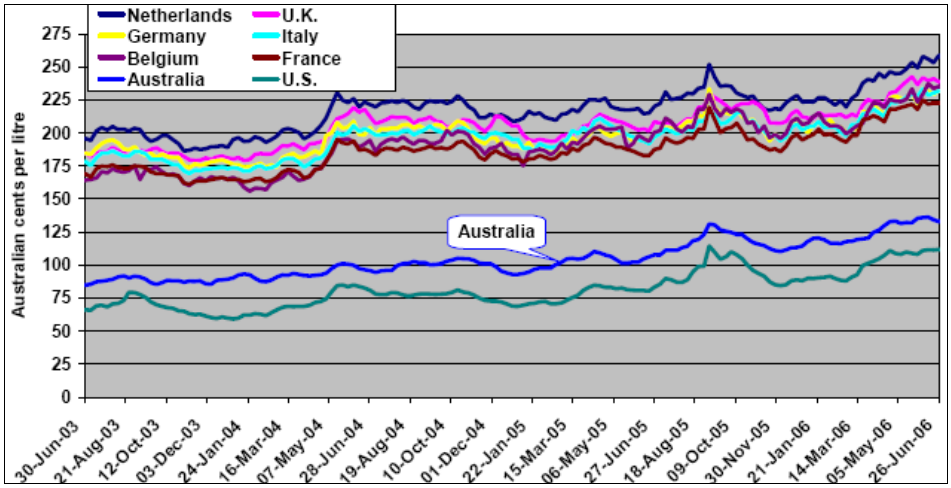
2.11 While one-third of the crude oil refined in Australia is produced locally and converted into petroleum products, the price of this oil is still inextricably linked to the price of petroleum products on the international market. As an internationally traded commodity the price of refined petroleum products (regardless of whether refined from locally sourced or imported crude oil) is set against the international benchmark price. This ensures that Australia has a consistent flow of product:

> If the price of refined petrol in Australia was lower than the international price, domestic refiners would have an incentive to export refined petrol overseas, which could lead to shortages of petrol in Australia. If the price of refined petrol was higher in Australia than overseas, refiners would have an incentive to import refined petrol rather than produce it in Australia.[6]

2.12 The benchmarking process used to determine the basis for Australian petrol prices is import parity pricing. Australian oil companies currently use the price of Singapore Mogas 95 Unleaded as the relevant benchmark. The Singapore price was chosen 'because it was the major trading centre in Asia for petroleum products, the most likely source of fuel imported into Australia and the closest major refining centre in Australia'.[7] The benchmark price is set at the average daily price of this type of petrol traded in Singapore. Australian oil companies have used Singapore Mogas 95 Unleaded as the benchmark since the petroleum industry was deregulated in 1998.

2.13 The linkage to the international market through import parity pricing can be seen in Figure 2.1 which illustrates that petrol prices in Australia reflect very similar trends to retail petrol prices in the United States and European markets.

Figure 2.1—Average weekly pump prices for petrol[8]



6 ACCC, *Submission 31*, p. 28.

7 Motor Trades Association of Australia (MTAA), *Submission 28*, p. 6.

8 Caltex Australia, *Submission 55*, p. 10.

To what extent do fluctuations in the crude oil price affect the petrol price?

The price of crude oil is the ultimate determinant of the price of petrol, creating fluctuations in petrol prices that consumers invariably feel. Australia uses the price of Tapis crude oil from Malaysia as the benchmark for setting the price of this internationally traded commodity.

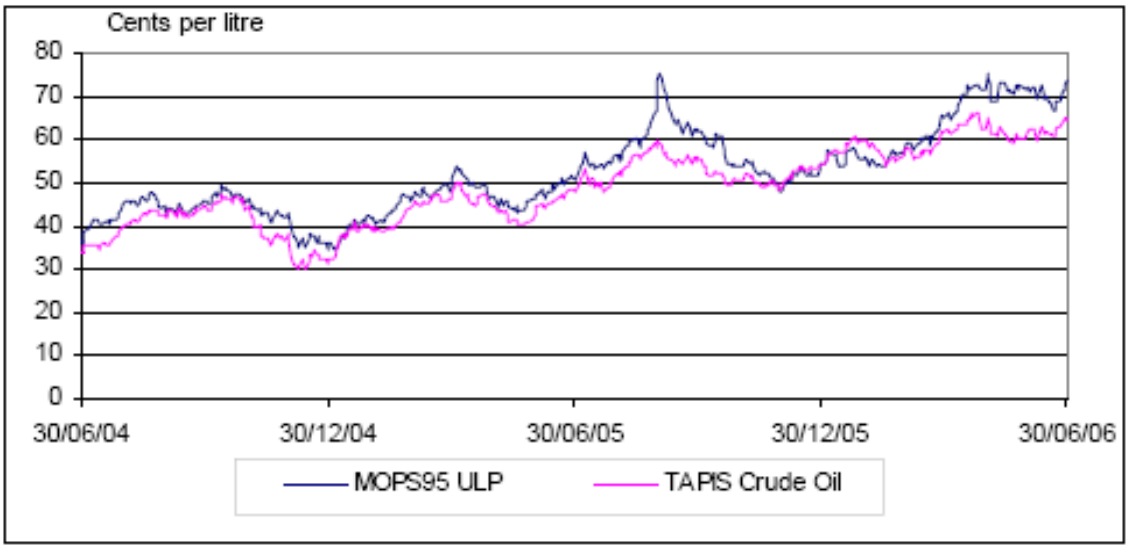
2.14 The ACCC attributed the key reasons for the increase in the international price of crude oil (by around 200 per cent over the past five years) as:

- supply shortages prompted by circumstances in oil-producing countries such as Iran and Nigeria, as well as political instability in oil-producing regions including the Middle East;
- increasing demand for crude oil triggered by supply disruptions such as natural disasters including Hurricanes Katrina and Rita, as well as annual planned refinery closures required to conduct maintenance;
- increasing demand for certain petroleum products in the Asia-Pacific region in which the Australian petroleum industry operates; and
- variations in the Australian and US dollar exchange rate, which can result in a situation where the international price of crude oil drops yet a weak exchange rate means that the price of oil remains relatively stable.[9]

2.15 Petrol is an independently priced and traded commodity and so the price can and does move independently of the price of crude oil. Figure 2.2 illustrates that whilst the price of petrol and oil tend to follow similar fluctuations, the prices do not always align such that the price of crude oil may be greater, or less, than the price of the international benchmark price of petrol. Nevertheless, allowing for these variations and lag effects, there is a very close correspondence between fluctuations in the crude oil price and the petrol price, as the following chart demonstrates.

9 ACCC, *Submission 31*, p. 29.

Figure 2.2—Tapis crude oil price and Singapore Mogas 95 Unleaded price[10]



2.16 A significant amount of evidence acknowledged fluctuations in the price of crude oil as being a major factor behind increases in the price of petrol. However, as was discussed by a number of commentators, although it is clearly the principal determinant, the price of crude oil alone cannot account entirely for the increase in the price of petrol.

What other factors affect the wholesale price of petrol in Australia?

2.17 The price of petrol extends beyond the import parity price. Whilst it represents the bulk of the wholesale price of petroleum products, other factors also contribute to the downstream price of petrol. Typically the wholesale price of petrol is a summation of many factors including:

- the rolling average of the daily price of Singapore Mogas 95 Unleaded;
- the rolling average of the daily Australian and US dollar exchange rate;
- costs of meeting Australian fuel quality standards;[11]
- transport charges, including insurance and wharfage charges;
- refinery operating costs; and
- refiner margin.

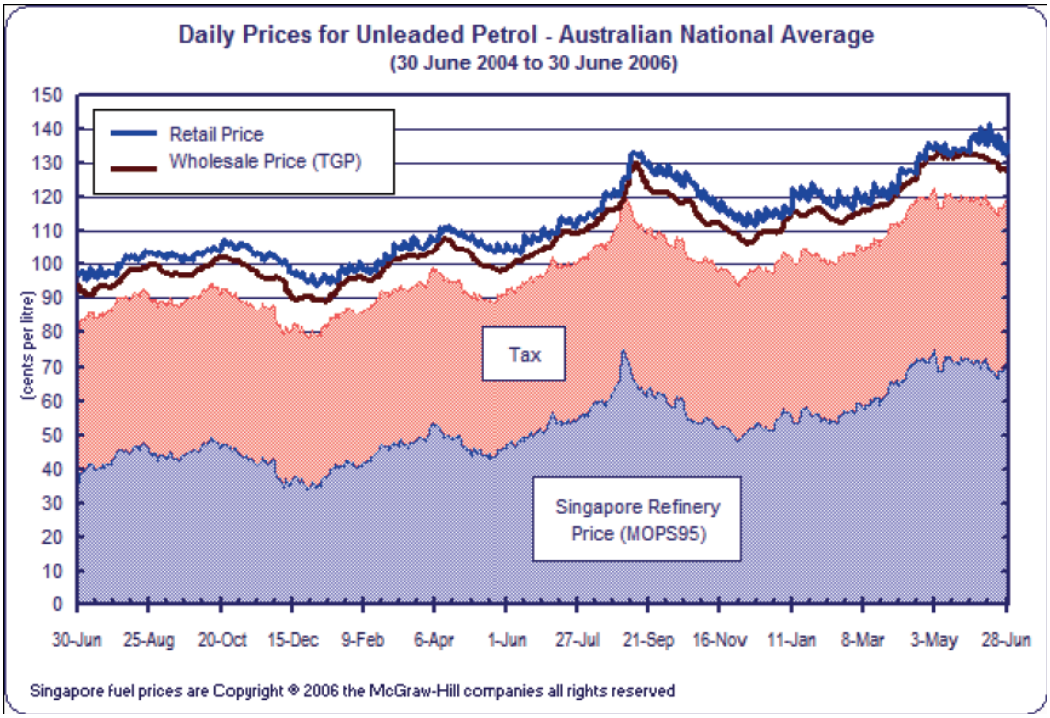
2.18 The combination of these components, plus or minus any other factors included by operators to calculate the wholesale petrol price, is referred to as the

10 AIP, *Submission 50*, p. 13.

11 The ACCC noted that Western Australia has a higher fuel quality premium (see ACCC, *Submission 31*, p. 36).

Terminal Gate Price (TGP). According to the Australian Government's new Oilcode,[12] the TGP is the price for a wholesale sale of petroleum product, temperature corrected and expressed in cents per litre.[13] This is the wholesale price that a truck driving up to the terminal gate of a refinery can expect to pay for a bulk quantity of petroleum product. Figure 2.3 illustrates that fluctuations in the TGP tend to follow reasonably closely with fluctuations in the retail price. Figure 2.3 also shows that the greatest contributors to the cost of petrol at the pump are the price of Singapore Mogas 95 Unleaded and taxes.

Figure 2.3—Movements in Singapore Mogas 95 Unleaded and TGP[14]



2.19 In addition to the TGP many oil companies also hold a 'wholesale list price'. This price is calculated daily by the oil company and is generally treated as a confidential price between the oil company and the purchaser. This is because the price may include factors such as bulk purchase discounts, rebates or other terms and agreements that have been agreed between the parties. However, both the TGP and the wholesale list price are calculated in relation to the import parity price.

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12 The Oilcode forms part of the Downstream Petroleum Reform Package. Effective 1 March 2007, it will provide a uniform regulatory environment for petroleum industry participants. Its introduction coincides with a repeal of existing petroleum legislation, the *Petroleum Retail Marketing Sites Act 1980* and the *Petroleum Retail Marketing Franchise Act 1980*. For further information, see 'Downstream Petroleum Reform Package and Oilcode', (accessed October 06): http://www.industry.gov.au/assets/documents/itrinternet/ReformPackage20060331151615.pdf

13 *Trade Practices (Industry Codes — Oilcode) Regulations 2005*, Final Draft, s. 4.

14 AIP, *Submission 50*, p. 17.

2.20 In evidence submitted to the inquiry, it appears that most petroleum products are sold on the basis of a price other than the TGP; namely, the wholesale list price set by the oil company, and how this price is calculated is not disclosed by the parties.[15]

2.21 Terminal (or refinery) operating costs are the costs to the business incurred in refining crude oil into petroleum products. These costs would also include the more general costs associated with running a business such as the costs of operating and maintaining refinery equipment (including overheads and payment of wages), as well as any costs associated with upgrading and modifying ageing equipment or to meet new industry environmental emission standards. As all of Australia's refineries are some fifty or more years old, there can be substantial costs associated with conducting upgrades.

2.22 Transport charges include the costs associated with shipping a tanker of petroleum product to Australia. This would incorporate charges such as the shipping reference rate for freighting the product to Australia (essentially an index rate calculated in US dollars a tonne for a tank travelling to a particular Australian port), transportation to a terminal, terminal fees and insurance.

2.23 The refiner margin refers to the difference between the price of Singapore Mogas 95 Unleaded and Tapis crude oil. As described earlier, both of these factors are subject to international market forces, hence Australian refiners do not have control over this component in the price of petrol. Examining fluctuations in the refiner margin over time, it can be seen that whilst the margin is generally positive there have also been instances when the refiner margin has been negative.[16] BP Australia Pty Ltd commented that:

> Refinery margins were very low for many years due to overcapacity in the [Asia-Pacific] region. Margins less than US$4.00 are generally poor margins…Margins are better now, but the cycle can quickly turn. And even in recent times they have shown considerable variability. For example:
>
> - in January 05 they were close to zero;
> - in June 06, they were about US$7; and
> - in August 2006 they were about zero.[17]

2.24 However, as illustrated in Figure 2.4 fluctuations in the refiner margin have become clearly more pronounced in recent years.

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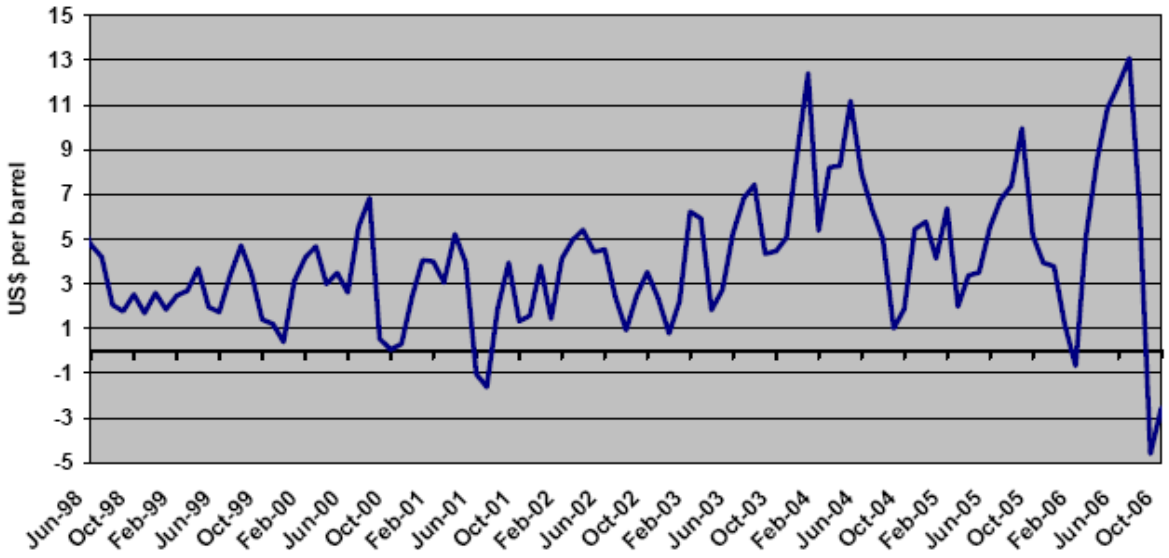
15 Mr Warwick Richards, Director, Economic and Energy Analysis, *Committee Hansard*, 26 September 2006, pp 14–15.

16 ACCC, *Submission 31*, p. 29.

17 BP Australia Pty Ltd, *Submission 34 – Additional Information* (presentation to Committee), p. 16.

Figure 2.4—Singapore petrol refiner margin[18]



2.25 The NRMA questioned whether the oil companies may be using increases in the international price of crude oil to also increase other margins included in the sale price of petrol:

> NRMA does not know why there has been a simultaneous increase in refiner margins, wholesale margins and retail margins along with record high crude oil prices. There is no evidence to suggest that higher crude oil prices would lead to increases in other input costs throughout the oil production and distribution chain. On balance, we believe that these simultaneous increases in various margins throughout [the] industry supply chain suggest that the oil industry in Australia is not effectively competitive.[19]

2.26 The Motor Trades Association of Australia (MTAA) argued that higher wholesale margins have been attained by the oil companies in recent times whilst retail margins have remained largely unchanged:

> The tighter supply and demand conditions have also delivered improved wholesale margins to refiners over the last few years. In contrast, retail margins have remained fairly consistent over the same period due to intense competition at the retail level. For example, the Caltex Refiner Margin rose from US$1.82 a barrel in 2002 to US$8.40 a barrel in 2005 – an increase of 361 per cent.[20]

2.27 This view was also presented by the Australian Automobile Association, which stated that:

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18 Caltex Australia presentation at public hearing, 13 October 2006, p. 4.

19 NRMA, *Submission 33*, p. 18.

20 MTAA, *Submission 28*, p. 7.

> Though it is difficult for us to pinpoint the reason for the increase in the differential between oil and petrol prices, our analysis suggests it has been driven by a combination of increases in margins at the retailing, wholesaling and refining levels.[21]

2.28 The ACCC explained that the fluctuations in the refiner margins could be the result of structural changes in the Asian petroleum market, resulting in a situation where demand for petrol in our region is increasing whilst supply decreases:

> Part of what has happened is that we have had a structural change occur in the Asian markets, which is basically what determines our prices in Australia. A structural change has been that for a long time Asia was a substantial consumer of diesel, and petrol was a by-product when you are producing diesel. We had a period where, if anything, there were excess supplies of petrol in Asia…In more recent years, Asia has started to consume more petrol than previously. That is partly through the growth of China and India and it is partly through the increasing use of petrol driven motor vehicles. That ready supply, almost excess supply, of petrol in the Asian region that we had for quite a while has disappeared.[22]

2.29 This view was echoed by the Service Station Association:

> With the strong growth in China and, to a lesser extent, India that surplus capacity is no longer there. That means that refiner margins, again because of supply and demand, have probably doubled in the last few years. That is a situation that will reverse because new, additional refining capacity in the region, I am told, is likely to have an impact on that from 2008 onwards. So we are probably likely to see refiner margins cut back in the latter part of this decade.[23]

2.30 Shell explained that the current high margins are temporary, reflecting cyclical patterns in the industry:

> The long-term cyclical nature of margins must be taken into account in considering the risk and return on the very large and long-term investment in a refinery. Refining industry dynamics have tended to be characterised by a cycle of poor margins → stagnant capacity → increased demand → good margins → investment/increased capacity → over capacity → poor margins.[24]

2.31 This situation has been the reverse to what was observed in previous years. Mr Warwick Richards from Economic and Energy Analysis commented that this is:

> …a complete reversal of the long-run trend that we had in the regional market, which was a very pronounced overhang of excess investments in

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21 Australian Automobile Association, *Submission 29*, p. 7.

22 Mr Brian Cassidy, Chief Executive Officer, ACCC, *Committee Hansard,* 3 August 2006, p. 23.

23 Mr Ronald Bowden, Service Station Association, *Committee Hansard,* 23 August 2006, p. 32.

24 The Shell Company of Australia Limited, *Submission 45*, pp 8–9.

> refinery capacity in Asia…Since then, we have seen unprecedented rates of growth in demand in the region, and of course the market failed to anticipate the rate of that demand.[25]

2.32 Furthermore, Mr Richards described the nature of the petroleum industry 'in which refineries are billion-dollar investments…with very long lead times' which means that the owners must put the investment to good use to recoup costs. He argued that the capital-intensive nature of the industry tends to drive refiner margins in the region.[26]

2.33 The Service Station Association Ltd pointed out that in addition to underinvestment in the industry, higher freightage and insurance costs at the moment are contributing towards higher petroleum prices:

> Freight and insurance is only small but at the moment it is higher than it otherwise might be because of the shortage of refining capacity in the Western world generally, which means that there is a higher amount of refined product being moved around the world in tankers. Ten years ago there was a surplus of tankers. Today there is a shortage of tankers. The same underlying problems are there with a shortage of capacity because of underinvestment.[27]

2.34 However what could be deemed to be a *reasonable* increase, both in the margins to recoup losses sustained during low points in the market or to ensure a sufficient return on investment in a refinery operation, is not clear. When questioned about this matter Mr O'Keeffe from Matilda Fuel Supplies provided the following commentary:

> **Senator CHAPMAN**—Do you believe that is justified in terms of the previous margin being too low because of a period of fairly flat demand and pricing in Australia or is that excessive?
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> …
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> **Mr O'Keeffe**—I do not know, but a person who used to be a trader with one of the major oil companies told me a few years ago that the appropriate refiner margin would be in the order of $3.50 a barrel. We have seen it go up to $14 and $10 a barrel. Certainly, when it is down at $1.50 a barrel, it is too low and that is where it was at one stage. But I think it is obscene if it goes over $10 a barrel, and it has been sitting at $10 a barrel for a long

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25 Mr Warwick Richards, Director, Economic and Energy Analysis, *Committee Hansard*, 26 September 2006, p. 4.

26 Mr Warwick Richards, Director, Economic and Energy Analysis, *Committee Hansard*, 26 September 2006, p. 4.

27 Mr Ronald Bowden, Service Station Association, *Committee Hansard*, 23 August 2006, p. 32.

> time, although…you will see that since about 8 August the unleaded refining margin has dropped back considerably.[28]

2.35 The Queensland Government noted:

> International factors are a key determinant of domestic petrol prices, but it is important that this is not used as an excuse for inaction. The impact of high petrol prices on the financially vulnerable sections of the community, and the strategic importance of petrol in the economy, makes it incumbent upon governments to take whatever practical steps are available to reduce petrol prices and Australia's longer term reliance on petrol.[29]

2.36 Some submitters to the inquiry also questioned why increases or decreases in the international price of crude oil do not correspond equally with changes to the price of petrol at the pump.[30] However, evidence described the lag in fluctuations as the consequence of Australian markets working on a seven-day rolling average.[31] This means that changes in the world price will not be felt in the Australian wholesale petroleum market for up to a week whilst the flow-on effect to the retail market will be delayed until new product is purchased from the wholesaler at the increased or decreased price. It is only then that the increased or decreased price will be passed on to consumers purchasing fuel at retail outlets.

2.37 The time lag between changes in the international prices and the resulting effect on the price at the pump was reported as being around one to two weeks.[32] However, it can sometimes be much longer depending on how regularly the retailer receives new petroleum consignments. For example, in regions of slow retail product movement, such as in rural or remote communities where demand for product may be quite low, the retailer may purchase new fuel far less frequently than would retailers in metropolitan areas. Therefore short term fluctuations in the international price of crude oil or petroleum products may not be felt for some time, if at all. Locally specific influences on the price of petrol at the pump, including the impact of the retailer's margin and competition between petroleum retailers, are discussed in Chapter 3 – The Petrol Price Rollercoaster.

Does meeting Australian fuel standards increase the price of petrol?

2.38 New fuel standards were first introduced by the Australian Government between January 2002 and January 2006, imposing limits on the amount of olefins, methyl tertiary-butyl ether (MTBE), sulphur, aromatics and benzine in petrol and the

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28 Senator Grant Chapman & Mr Lawrence O'Keeffe, Matilda Fuel Supplies, *Committee Hansard*, 23 August 2006, p. 13.

29 Queensland Government, *Submission 75*, p. 1.

30 *See for example*, Mr Stephen Garlick, *Submission 17*, p. 3.

31 *See for example*, AIP, *Submission 50*, p. iii; *and* Mr Ronald Bowden, Service Station Association, *Committee Hansard*, 23 August 2006, p. 33.

32 Motor Trades Association of Australia, *Submission 28*, p. 5.

banning of leaded petrol. Further increases in fuel standards were announced in 2004, aimed at reducing the amount of sulphur in premium unleaded from January 2008 and in progressively reducing the amount of sulphur in diesel commencing from 1 January 2006.[33]

2.39 Since 2000, a number of states have also adopted tightened fuel standards ahead of the Australian Government including Western Australia, Queensland and South Australia. Following the introduction of tighter fuel standards by the Australian Government, all fuel standards are now common across Australia, with the exception of Western Australia which has stricter limits on the amount of MTBE permitted in petrol.[34]

2.40 Whilst the environmental advantages of the new fuel standards include cleaner urban air and the use of more efficient, environmentally-friendly technologies, the cost of adapting Australia's refineries to meet the new standards was estimated as exceeding $2 billion.[35] Petroleum industry representatives indicated that the tighter Australian fuel standards introduced since 2002 would account for around 2.0 to 3.0 cents per litre higher wholesale petrol prices, which would be likely to flow-on to similar increases in the retail price of petrol.[36]

2.41 The ACCC noted that Australia's tightening fuel standards, combined with increased demand for petrol in Asia, have impacted on the ability to purchase petrol at reduced prices on the international market and this has particularly affected independent fuel operators:

> Actually, I would say that what is not happening all that much these days is the independents being able to pick up relatively cheap petrol in Asia. That is partly because our fuel standards have made that more difficult and partly because there is a much tighter demand-supply situation in Asia.[37]

2.42 The restriction on being able to import fuel from some countries because of increased Australian fuel standards was also discussed by other witnesses:

> [Independents] were sourcing petrol in China and elsewhere when it was available. An important issue that restricted their supply was not only the changes in the market in Asia but particularly the availability of MTBE as

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33 The Hon. Ian Campbell, Minister for Environment and Heritage, 'Cleaner fuels: cleaner air and a healthier Australia', *Media Release,* C6/04, 22 July 2004.

34 ACCC, *Submission 31*, p. 19.

35 AIP, 'Energy Statement points the way towards a sustainable industry', *Media Release*, 15 June 2004.

36 ACCC, *Submission 31*, p. 19.

37 Mr Brian Cassidy, Chief Executive Officer, ACCC, *Committee Hansard*, 3 August 2006, p. 43.

> an octane enhancer. As that was restricted in the region, a lot of the available product was also less available for those purposes.[38]

2.43 However, independent fuel operator Matilda did not believe the impact of fuel standards on independents is quite so significant:

> I cannot be specific, but I would have thought that now Australia is importing 20 to 25 per cent of its requirements and some of the Asian specifications are becoming closer to our Australian specifications there would be an opportunity to import fuel.[39]

2.44 The Australian Institute of Petroleum noted that as other countries in the Asia-Pacific region move towards higher fuel standards, more opportunities will arise to import fuel:

> So over the rest of this decade we will see a progressive shift in more and more countries across the region to fuel standards that are similar to the Australian fuel standards and that are similar to fuel standards in Europe and North America...So Australia is not at the forefront of these standards. They are standards that are already in place in Europe and in parts of Asia, certainly in Japan. Progressively there will be more countries around the Asian region requiring these fuel standards.[40]

2.45 The ACCC noted that compliance with Australian Government fuel standards adds a premium onto the base price of Singapore Mogas 95 Unleaded but also commented that as fuel standards 'rarely change' this is unlikely to cause significant fluctuations in the price of petrol.[41]

2.46 Despite more stringent Australian fuel standards resulting in petrol price increases, it is clear that the fuel standards will continue to benefit Australia well into the future through improved air quality and reduced environmental damage. The Minister for Environment and Heritage, the Hon. Ian Campbell also noted that the increased fuel standards would help 'the two million asthmatics and countless other Australians who suffer from breathing problems' whilst also 'hasten[ing]the introduction of the next generation of cleaner vehicle engines and emission controls'.[42]

2.47 As well as factors specific to the industry, taxes on petrol (excise and GST) account for a significant proportion of the cost of petrol, as demonstrated in Figure 2.3. Excise is levied on petrol at a cents per litre basis (currently set at 38.143 cents

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38 Mr Warwick Richards, Director, Economic and Energy Analysis, *Committee Hansard*, 26 September 2006, p. 10.

39 Mr Lawrence O'Keeffe, Retail Director, Matilda Fuel Supplies, *Committee Hansard*, 23 August 2006, p. 5.

40 Dr John Tilley, Executive Director, AIP, *Committee Hansard*, 27 September 2006, p. 17.

41 ACCC, *Submission 31,* p. 30.

42 The Hon. Ian Campbell, Minister for Environment and Heritage, 'Cleaner fuels: cleaner air and a healthier Australia', *Media Release*, C6/04, 22 July 2004.

per litre for unleaded petrol) whilst GST is included after all other components of the petrol price have been calculated at the usual rate of 10 per cent. A detailed discussion of the contribution of taxes to the rising price of petrol is included in Chapter 5 – Petrol, Excise and GST.

Conclusion

2.48 As an internationally traded commodity, a number of factors outside of the direct control of domestic oil companies are influencing the price of petroleum products in Australia. Whilst a number of margins contained within the price of petrol have increased, it is also apparent that the industry has suffered periods of low or negative margins in the recent past. It is natural for any industry, in particular an industry which is highly capital intensive and in which investment in plant and equipment are very expensive and involve long lead times, to seek to recoup losses sustained once conditions in the market are more favourable, for example, during a period where demand exceeds supply. And in any case, the refiner margin is not within their direct control, but is set by market forces.

2.49 Australia's petroleum refining capability is much smaller and older than its competitors in the Asia-Pacific region. Australia cannot compete on the economies of scale enjoyed by some of the newer, larger refineries in our region, but it is noted that Australia's increasing fuel standards may be placing limitations on, or at least additional expenses to, importing fuel from neighbouring regions. This may be putting domestic refineries in a more favourable position, at least in the short term. However the benefits of tightened fuel standards and in developing cleaner technologies are clear.

2.50 The international and domestic petroleum market is subject to fluctuations that all Australians feel when purchasing petrol at the pump. The chief factors affecting petrol prices are outside the control of Australian oil companies, in particular the international price of crude oil, the changing balance between supply and demand in the Asia-Pacific region, fluctuations in the United States and Australian dollar exchange rate and increased Australian fuel standards. Nevertheless, the Committee notes that Australian oil companies do exercise some control over some margins contained in the price of petrol, although not the refiner margin nor freight costs.