



# Petrol Price Presentation

Presentation to Senate Economics  
Committee and Secretary  
September 2006

# Contents



- What constitutes price and why Import Pricing is used
- Build up of Sydney prices since Jan 2005
- Addressing some issues raised



# What constitutes the price? (1)

- Price is determined by World price. Major trading markets are London, New York and Singapore
- Singapore Product Price is key marker price (=MOPS95)
- Import Parity Price (IPP) = Singapore Platts MOPS 95 + Quality Premium + Shipping + Wharfage+ Insurance & Loss (all converted to A\$)
- Why do we use Import Pricing?
  - 23% of demand has to be imported anyway
  - Refineries compete against imports
  - ACCC and industry have used IPP as key reference for nearly 20 years
  - IPP is used for trading between refiners in Australia

# What constitutes the price? (2)



- Wholesale Price (or Terminal Gate Price (TGP)) = IPP + Wholesaling Costs + Wholesale Profit Margin + Excise + GST
  
- Retail Price = TGP + Retail Gross Margin (incl transport)

# How BP sells



- With a few exceptions, BP does not sell directly in regional/rural areas
- 65% of petrol volume is sold wholesale to distributors and dealers at TGP
  - Remainder sold by BP at retail
  - BP does not retail below TGP
- TGP is transparent – on our website (see next slide)

**Price footprint can be followed from crude through Singapore through Sydney terminal to service station**

# TGP transparency on www.bp.com.au (QLD)



BP Australia Pty Ltd - Terminal Gate Pricing - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address <http://www.bp.com.au/tgp/>

bp terminal gate pricing



These Queensland TGP Prices apply from 26 Sep 2006

Location	DIESEL	ULP	ULP95
Brisbane*	120.28	112.99	117.99
Cairns*	124.32	117.74	122.74
Gladstone*	124.37	116.50	121.51
MacKay*	124.90	118.06	123.07
Townsville*	124.30	117.07	122.08

\*All prices shown are US\$ inclusive.  
\*All products are to be sold at Temperature corrected volumes as legislated by the relevant State Governments.

© 1999 - 2003 BP p.l.c.

start | Internet | 12:22 PM

# TGP transparency on www.bp.com.au (NSW)




BP Australia Pty Ltd - Terminal Gate Pricing - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address <http://www.bp.com.au/tgp/>

bp terminal gate pricing




**These New South Wales TGP**  
Prices apply from 26 Sep 2006

Location	DIESEL	ULP	ULP95
Sydney*	120.43	112.58	117.59
Newcastle*	120.98	113.57	118.58

All prices shown are GST inclusive.

*\*All products are to be sold at Temperature corrected volumes as legislated by the relevant State Governments.*



© 1999 - 2003 BP p.l.c.

<http://www.bp.com.au/tgp/#>

start 2 Microsoft O... Microsoft Excel... 3 Internet Ex... G:\ExternalAffairs Microsoft Powe... EN 12:02 PM



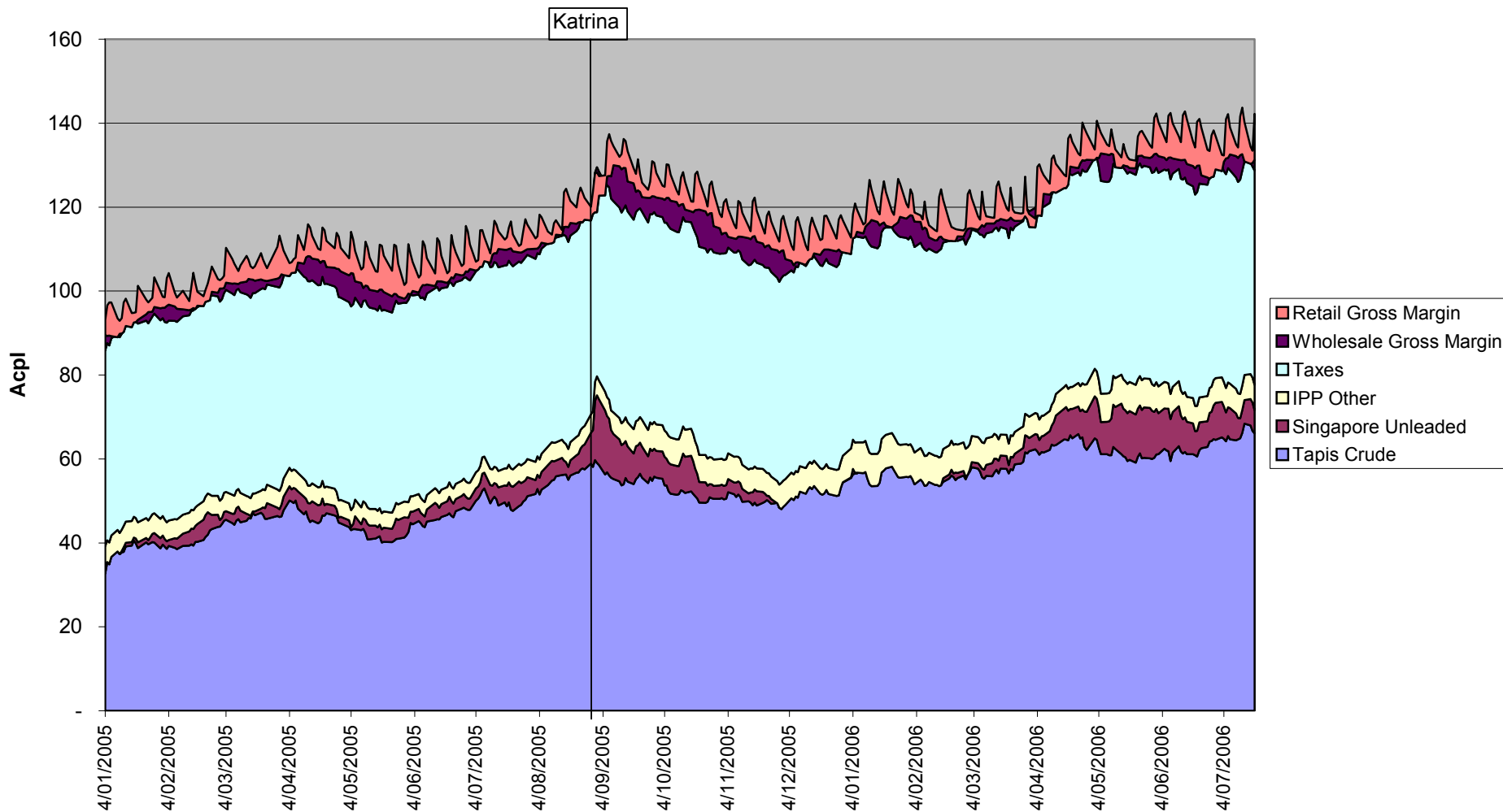
Build up of Sydney prices since  
January 2005



# BP average unleaded price 2005-06 (Sydney)



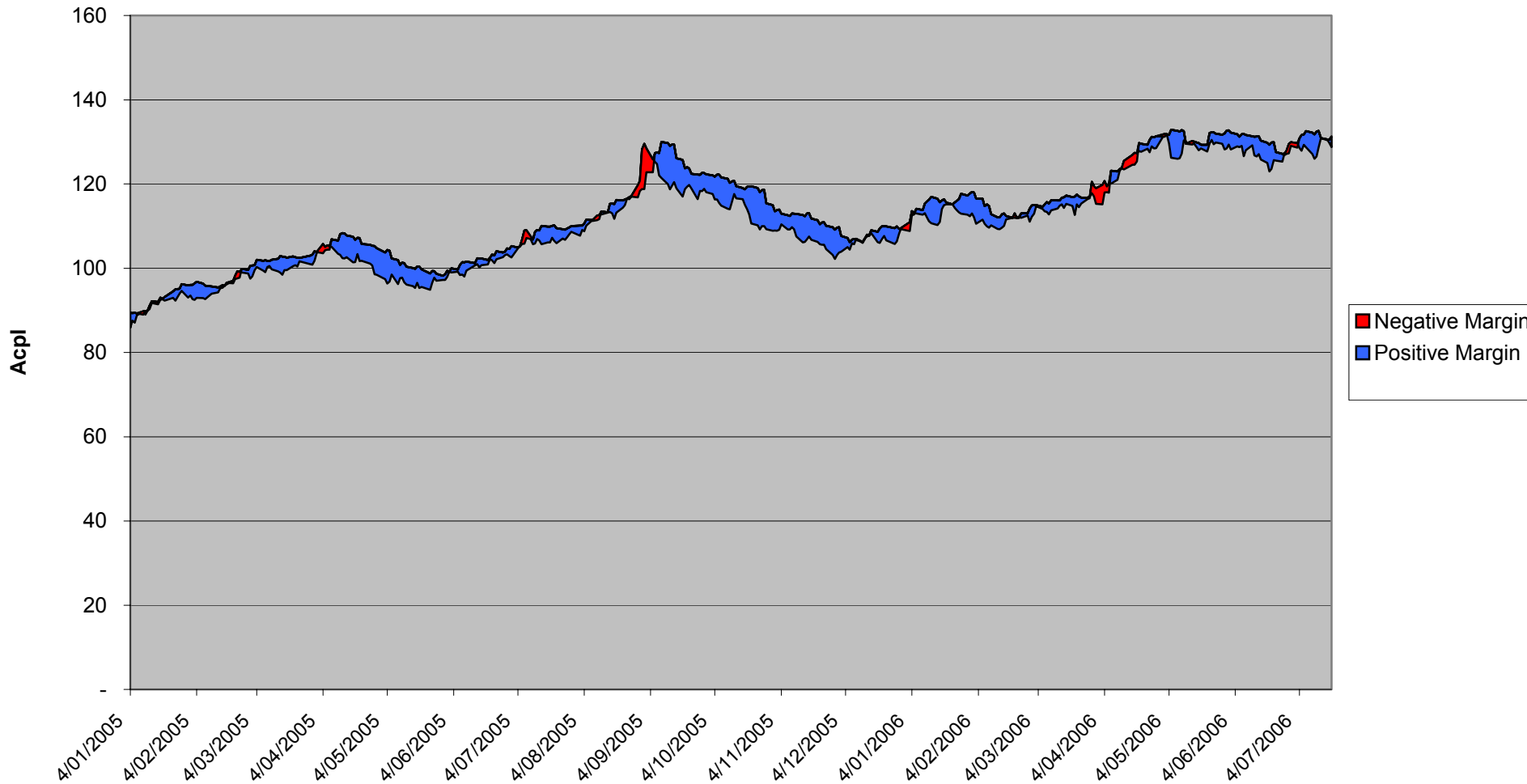
### Breakdown of Sydney BP Average Retail Unleaded Price 2005-2006



# Unleaded wholesale (TGP) margin - Sydney



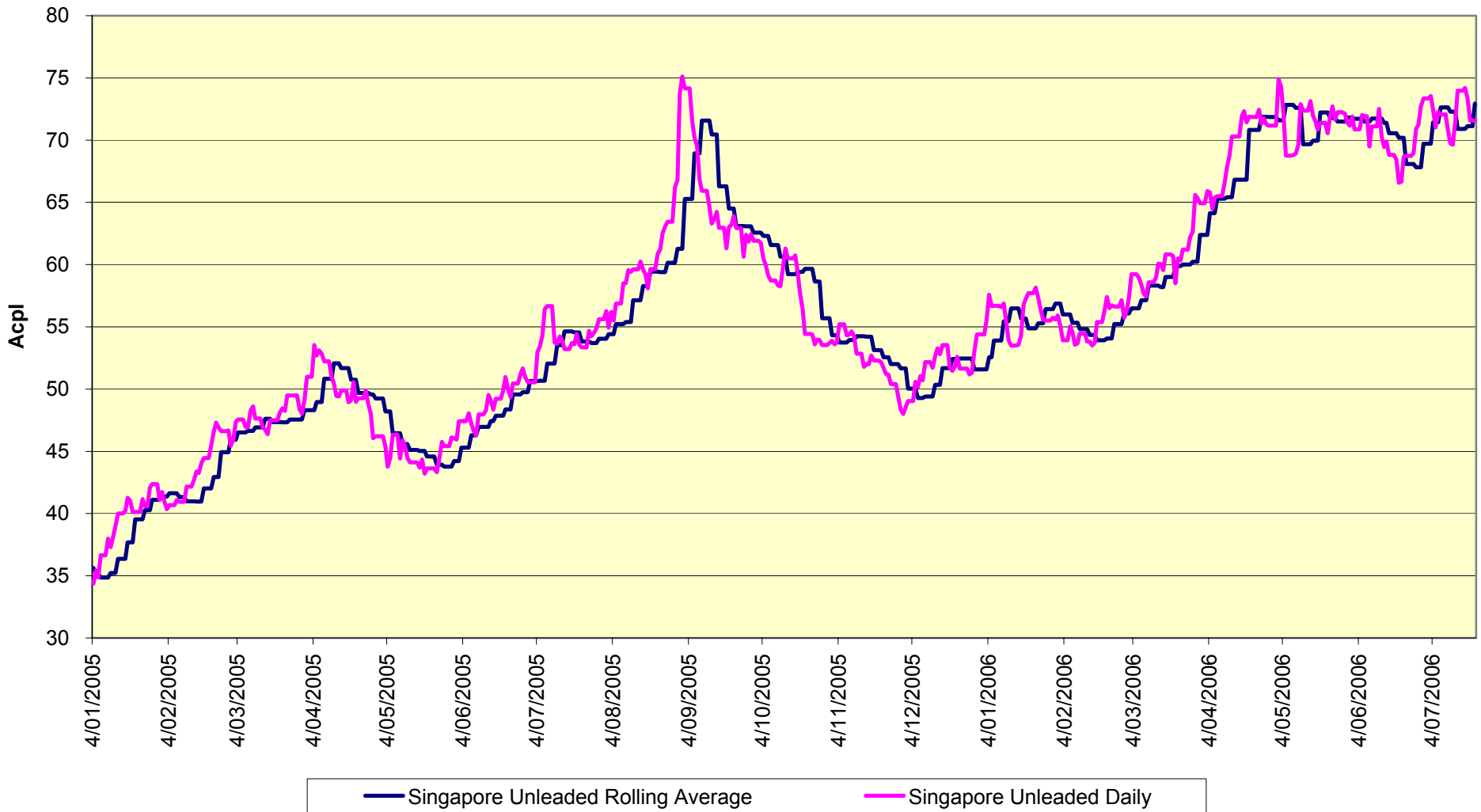
Sydney Unleaded Wholesale (TGP) Margin  
2005 - 2006



# Lag in wholesale price (TGP) ....due to rolling average



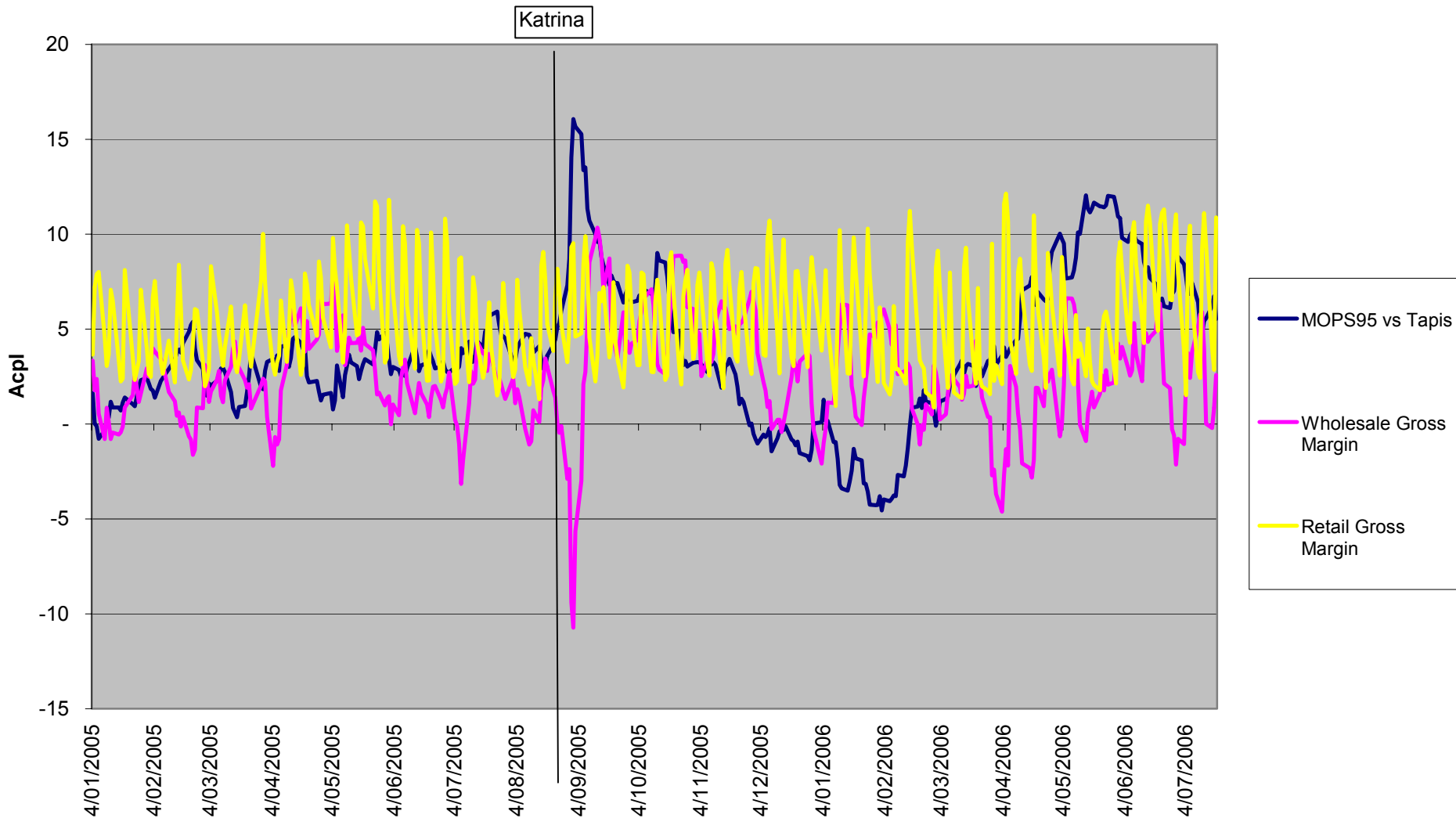
## Pricing Lag in Wholesale Price (TGP)



# 2005-06 Sydney unleaded gross margins



2005-6 Sydney Unleaded Gross Margins



# Why retail prices vary – price is made up of:-

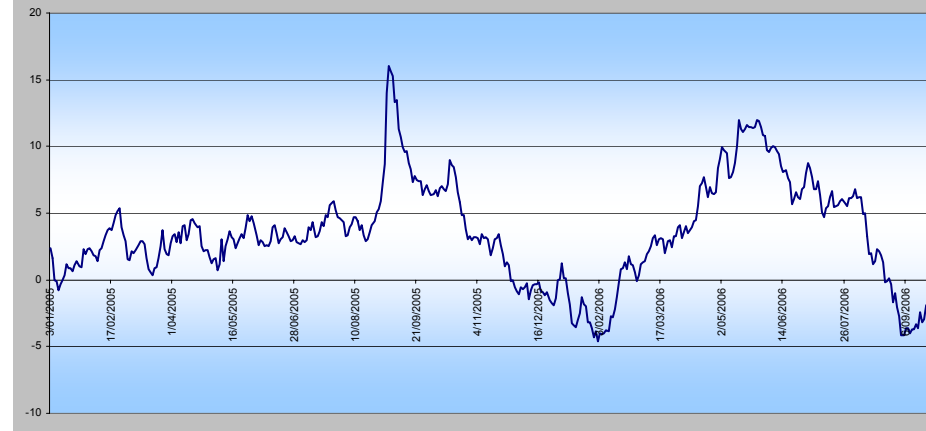


### Tapis

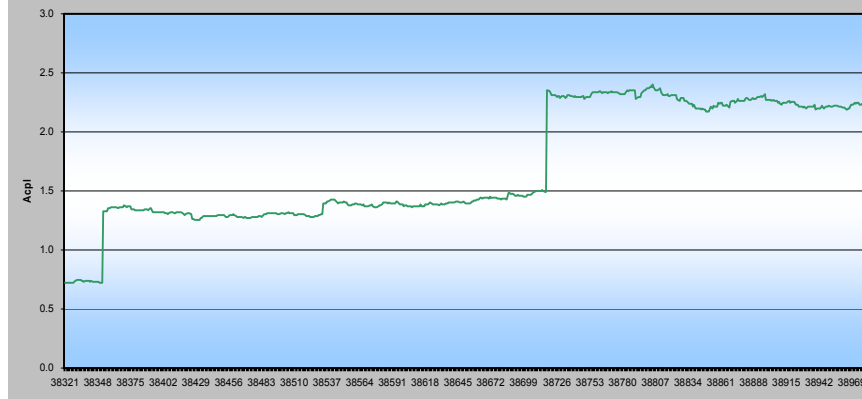


+

### Petrol refinery margins



### Quality premium



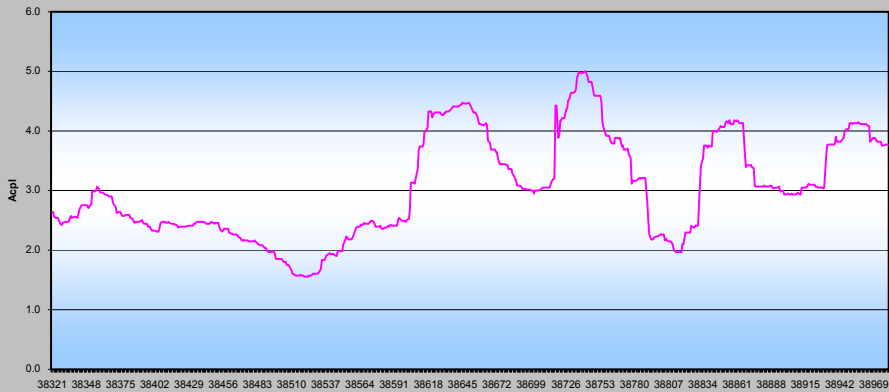
+

+

# Why retail prices vary (2)

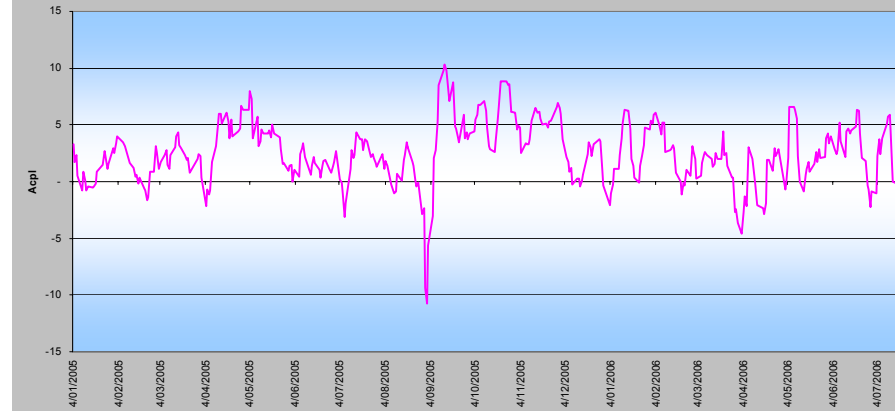


## Shipping



+

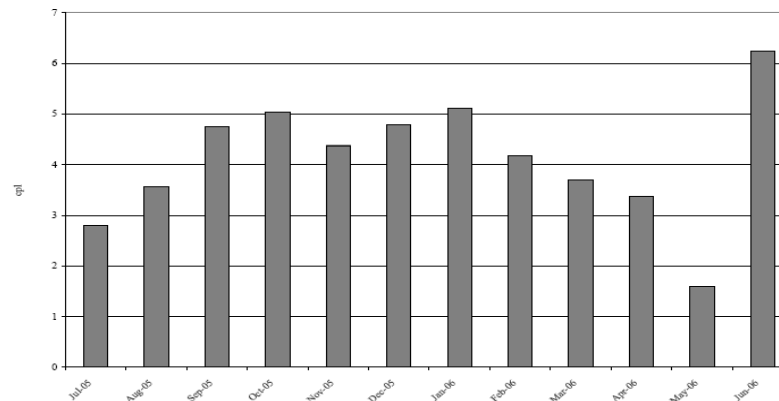
## Wholesale margins (Syd)



## Retail margin

Chart 4.2 Five largest metropolitan cities—average monthly differential between retail prices and terminal gate prices—July 2005 to June 2006

+



Source: ACCC, Informed Sources, BP, Caltex, Mobil, Shell, Trafigura and the WA Department of Consumer and Employment Protection

# Why prices vary – conclusions

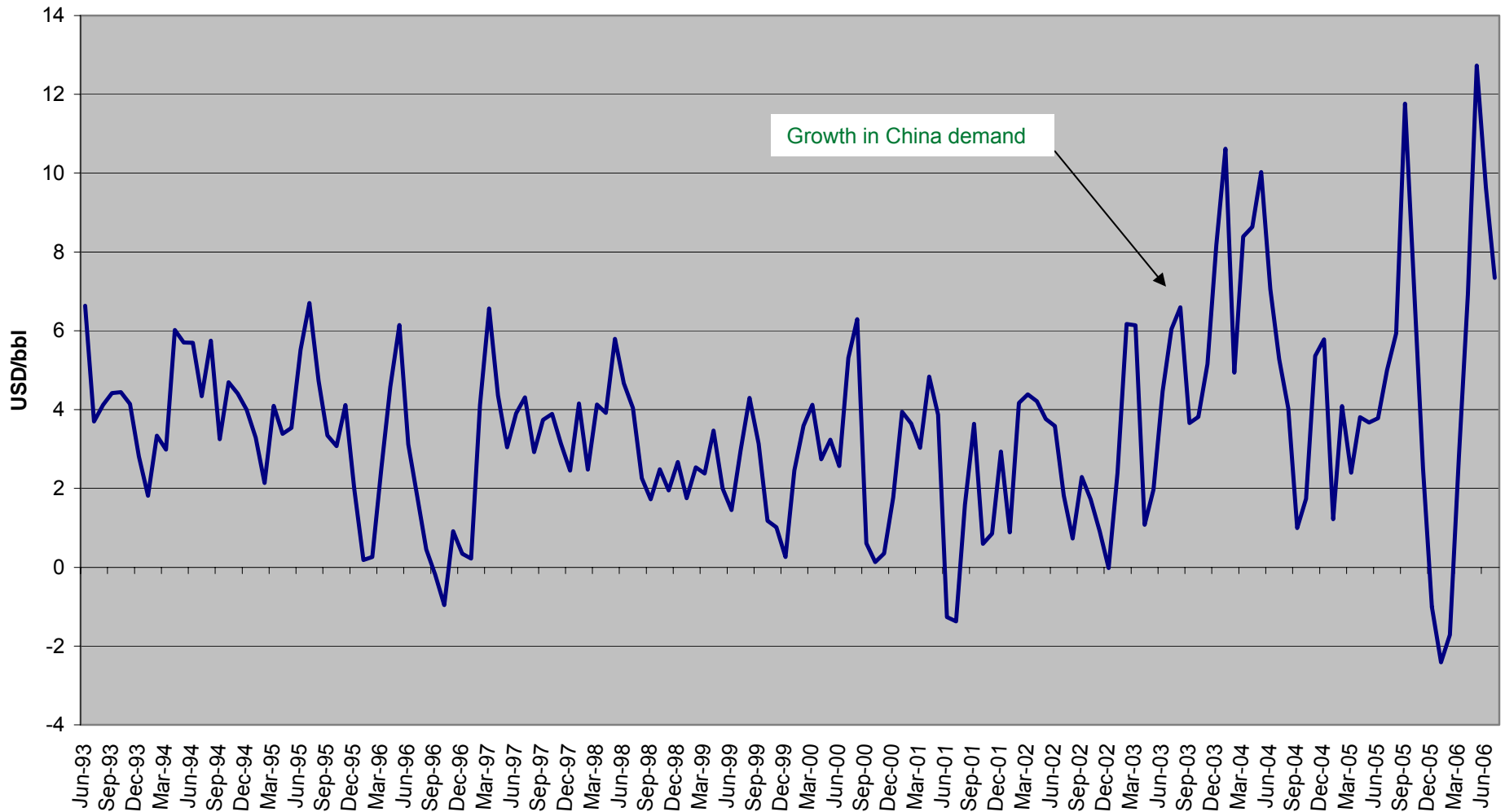


- There are many forces acting on petrol prices
- Nearly all are international
- All are market driven
- Specific comparisons by time or place can hide the true picture
- **It is the sum of all of these that yields the price**

# Crude and product price differentials



## MOPS95 vs Tapis MOPS Differential

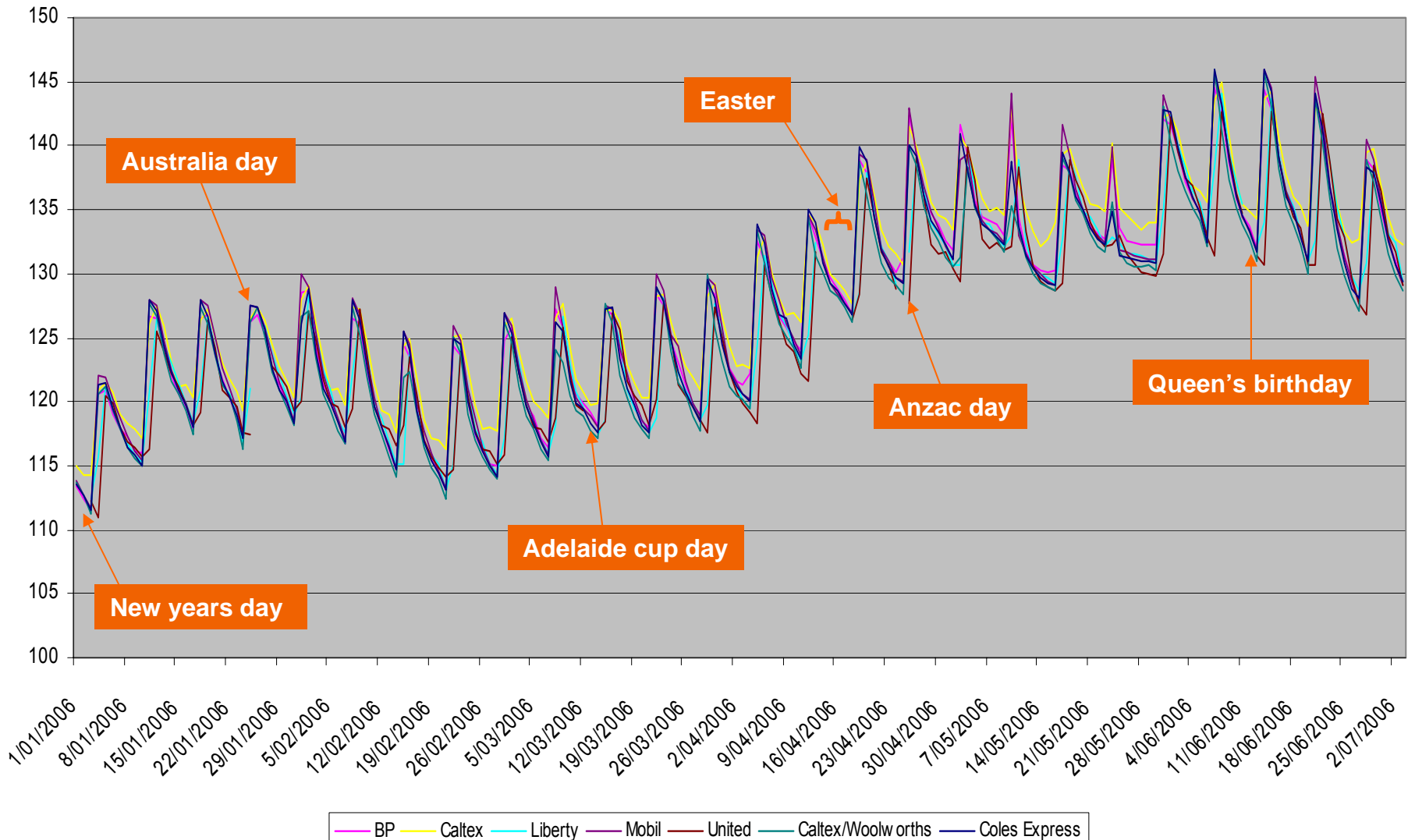




# The long weekend price spike myth (Adel)



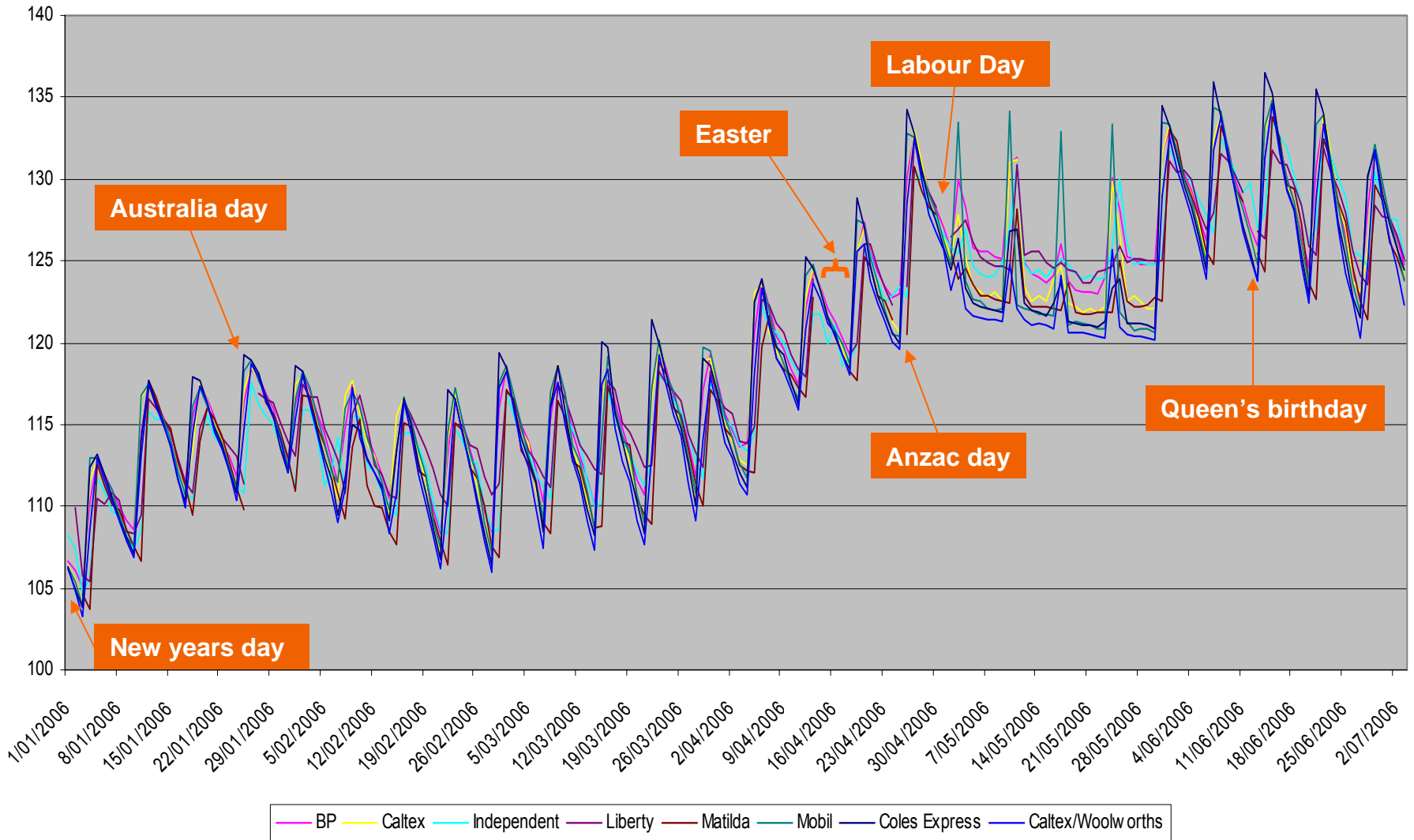
Adelaide ULP Board Prices



# The long weekend price spike myth (Bris)



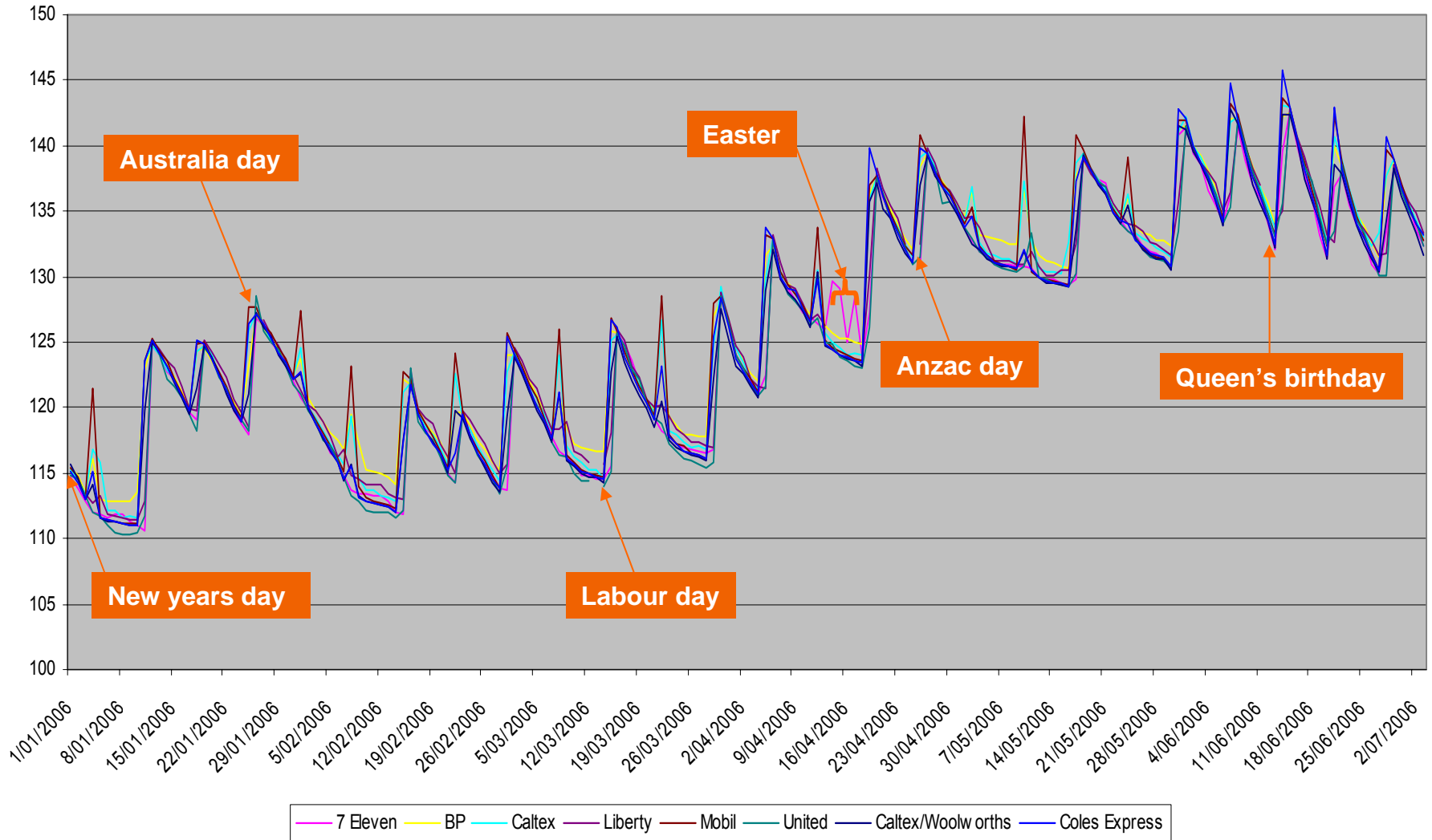
Brisbane ULP Board Prices



# The long weekend price spike myth (Melb)



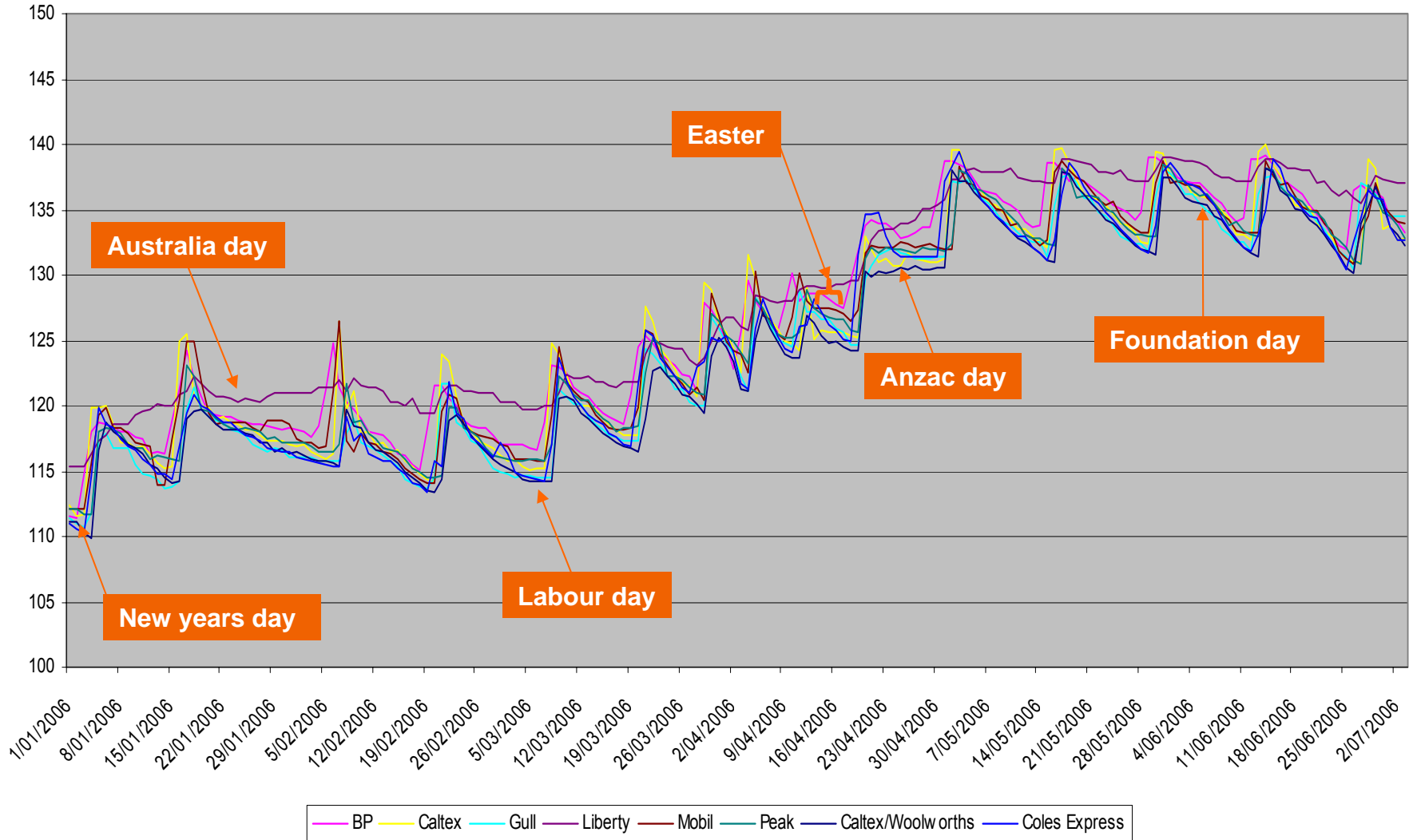
Melbourne ULP Board Prices



# The long weekend price spike myth (Perth)



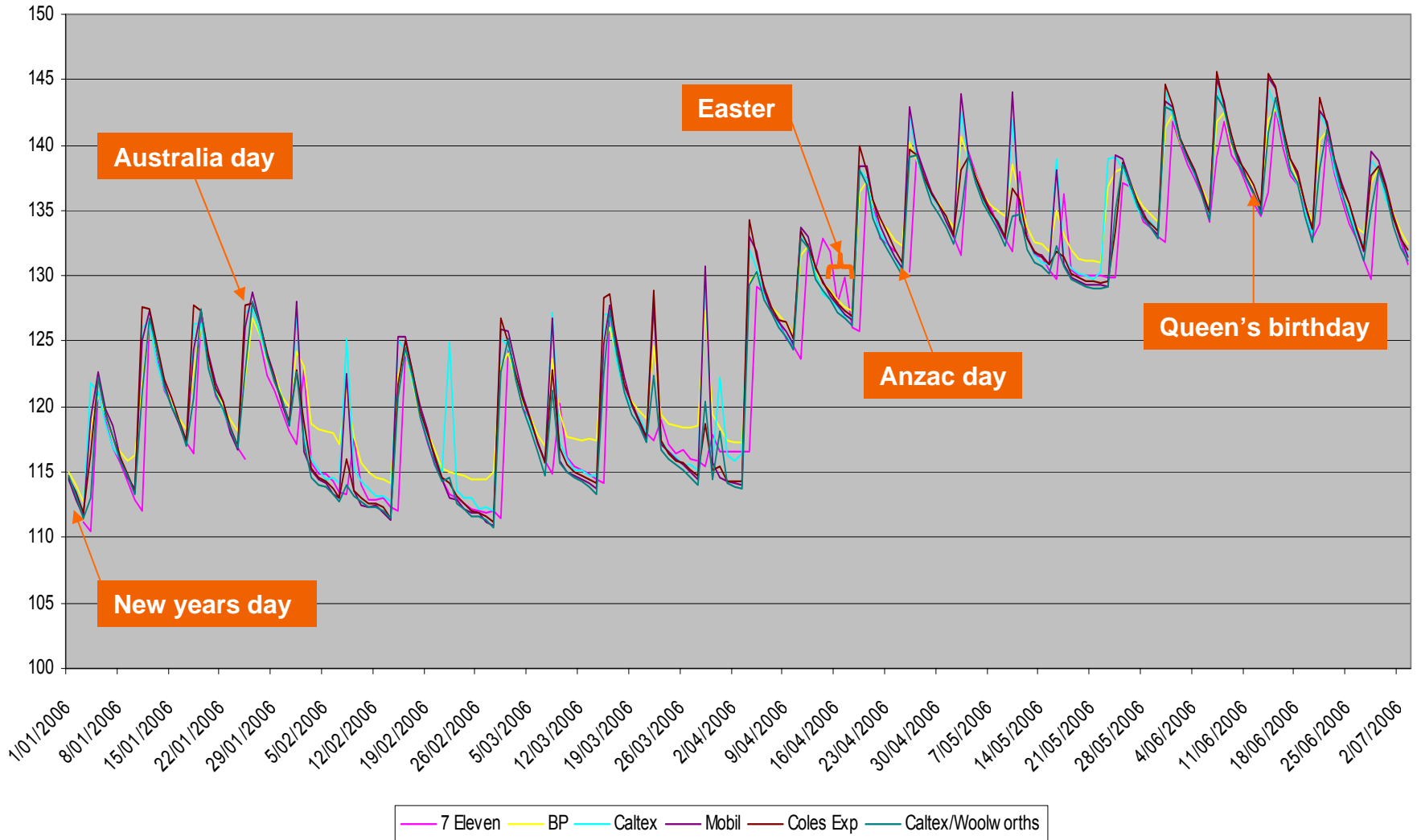
Perth ULP Board Prices



# The long weekend price spike myth (Syd)



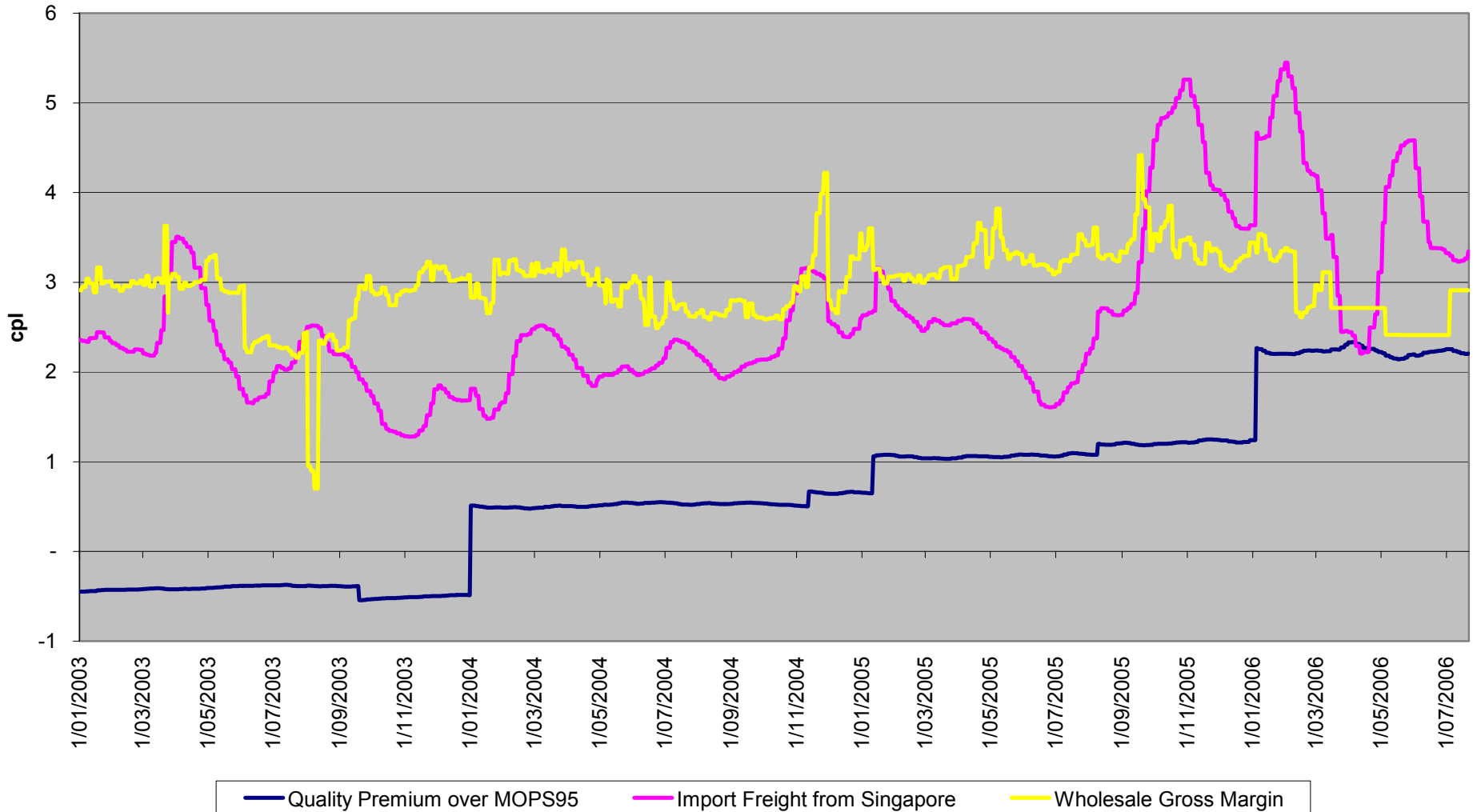
Sydney ULP Board Prices



# Refuting Consumer Affairs Vic flawed report... Wholesale margins have not risen, but cost of cleaner fuels have



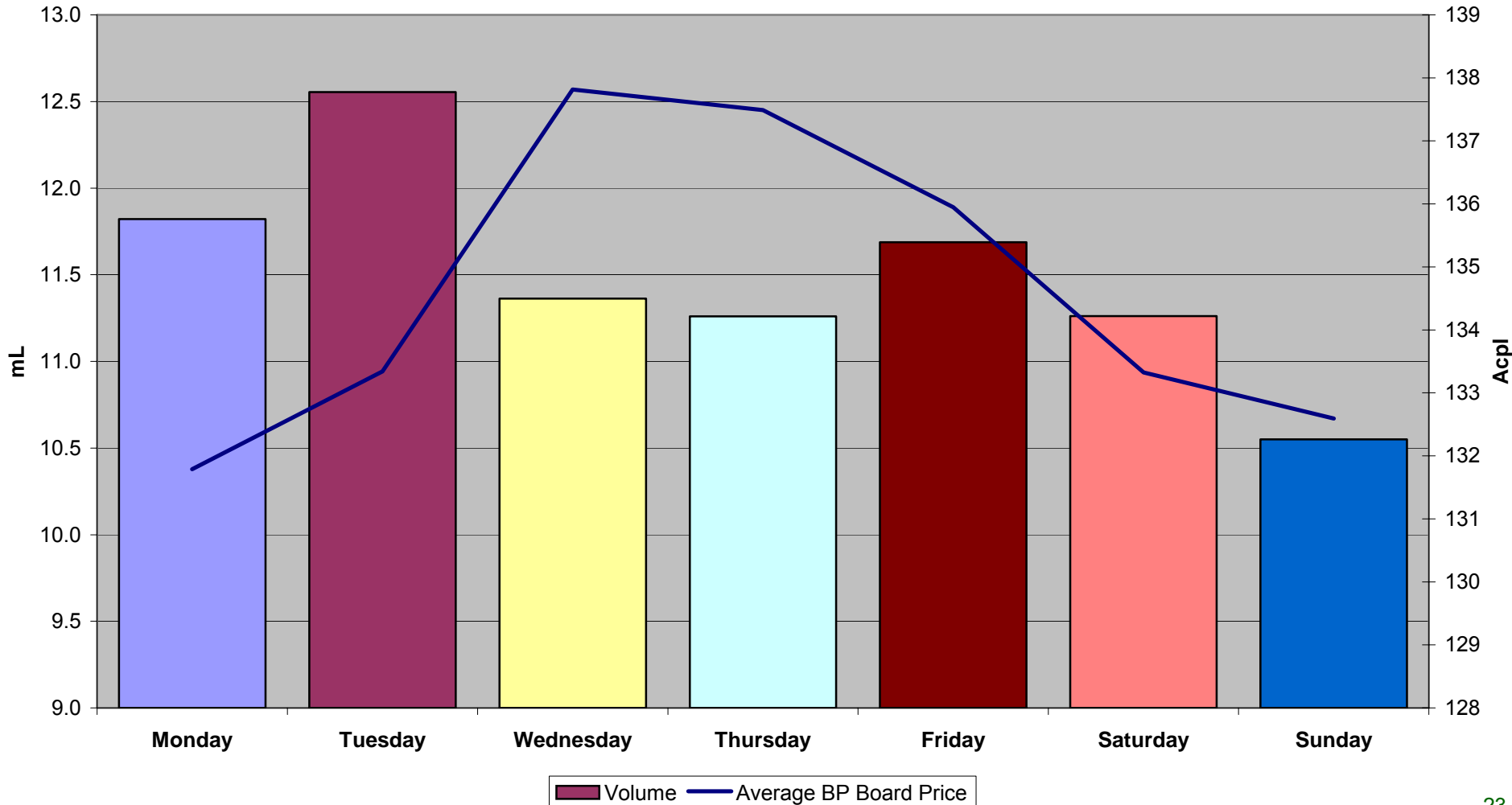
### Melbourne TGP Components 2003 - 2006



# Consumer response to price cycles... More volume purchased at low point of price cycle



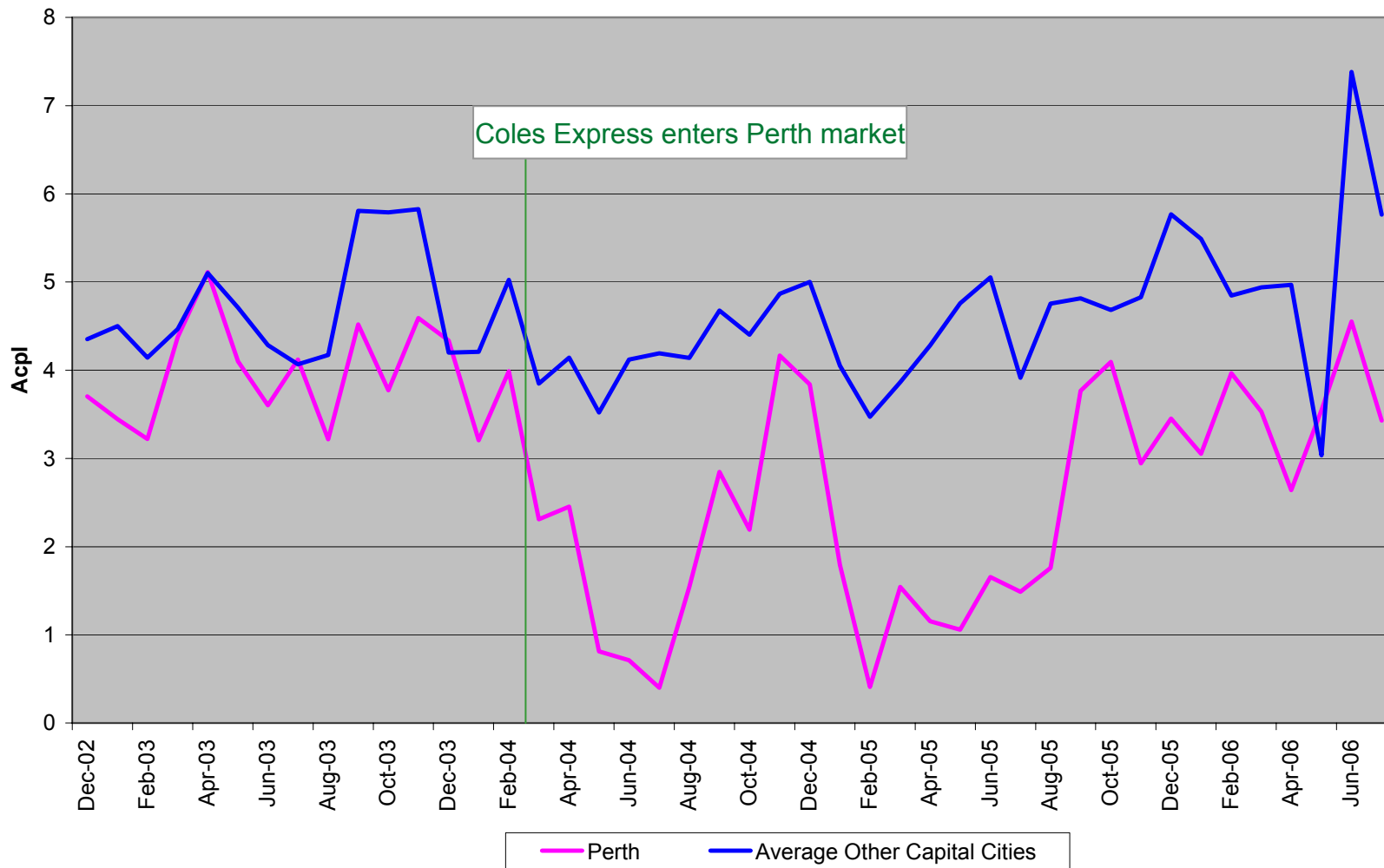
Sydney Daily Volumes (incl Card)  
vs Board Price



# Perth vs other capitals - BP board margin less published TGP



BP Board Margin less Published TGP





# Concluding.....



- The price changes have all reflected market forces and competition
- In most instances they have reflected international movements
- Pricing is simple in concept, but there are many competitive aspects (mainly international) that can add to complexity
- The principal examples claimed of questionable market behaviour made by several submissions are explained by:-
  - International market movements
  - In the claims made by Consumer Affairs Victoria that wholesale margins have increased (a claim taken up by several submissions), that these did not take into account the increased quality premia and shipping costs in recent years
  - In the case of increased Perth retail margins, that this did not take into account the preceding period of fierce competition and unsustainably low margins