

SOUTH AUSTRALIA

Commissioned Report on Fuel Pricing

AIP SUBMISSION TO:
South Australian Productivity Commission
MARCH 2020

AIP Submission to South Australian Productivity Commission Commissioned Report on Fuel Pricing

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KEY MESSAGES

- The Australian liquid fuels market is highly competitive and transparent, with pricing information at the wholesale and retail levels freely and widely available on a daily basis.
- As reported by the ACCC, wholesale petrol prices are dominated by refined international benchmark prices and Australian Government taxes. The wholesale “Terminal Gate Price” (TGP) typically represents around 90% of the retail price.
- There will always be differences across towns and across retail sites within towns due to a range of local area competition and business factors.
- South Australia has a highly competitive retail fuels market, reflected in the price cycle which often sees retail fuel prices dipping below wholesale prices.
- Outside of Adelaide, South Australian regional prices are comparatively more stable moving in line with international and wholesale prices (albeit accounting for the Singapore to Wholesale lag).
- The price cycle in Adelaide benefits consumers (more so than any other Australian capital city with a price cycle) by offering fuel below the annual average fuel price on more days than is priced above the average. In 2019, there were 199 days where fuel prices were below the average price, and 166 days where it was above.
- AIP publishes a range of price information, including Adelaide specific prices, that provides consumers with the capacity to compare prices and price trends.
- There are also a range of freely available third-party applications that provide retail site specific data and prices
- Given the market realities, the ever-increasing provision of transparent pricing information and the innovation by direct industry participants and third-party providers, there is little evidence to support Government intervention in the fuel market by providing more data. Such intervention would impose additional costs on both Government and the fuels market without a commensurate benefit to the consumer.
- However, should the South Australian Government wish to pursue a fuel price reporting scheme, it should only do so in a light touch manner that imposes the least cost on retail fuel operators. This is likely to be a system consistent with those introduced in NSW and Qld given current industry experience and the development of relevant internal reporting systems to support these programs.
- Further, the South Australian Government should consult with industry on key design and operational elements of such a scheme, should it be proposed.
- AIP would note that the Government, if it proceeds, should not promote such a system as being capable of delivering lower prices as there is no evidence to support such a claim. Indeed, it is possible that the scheme may have the effect of increasing prices particularly in regional areas where there would be new compliance costs that would need to be recovered without the necessary level of competitive tension in the market.

1. BACKGROUND

About AIP

The Australian Institute of Petroleum (AIP) was established in 1976 as a non-profit making industry association. AIP's mission is to promote and assist in the development of a sustainable, internationally competitive petroleum products industry, operating efficiently, economically and safely, and in harmony with the environment and community standards. AIP provides a wide range of factual information and industry data to assist policy makers, analysts and the community in understanding the key market and industry factors influencing Australia's downstream petroleum sector. AIP is represented on key advisory bodies including the ATO Petroleum Corporate Consultation Forum (PCCF), the Fuel Standards Consultative Committee (FSCC), the National Oil Supplies Emergency Committee (NOSEC) and National Plan Strategic Industry Advisory Forum (NPSIAF) and AIP sponsors or manages important industry environmental and health programs. The Australian Marine Oil Spill Centre (AMOSC) is a wholly owned AIP subsidiary.

AIP presents this Submission to the SA Productivity Commission on behalf of AIP's core member companies:

- BP Australia Pty Ltd
- Caltex Australia Limited
- Mobil Oil Australia Pty Ltd
- Viva Energy Australia Pty Ltd.

About AIP Member Companies

AIP member companies operate across all or some of the liquid fuels supply chain including crude and petroleum product imports, refinery operations, fuel storage, terminal and distribution networks, marketing and retail. Underpinning this supply chain is considerable industry investment in supply infrastructure, and a requirement for significant ongoing investment in maintaining existing capacity. Over the last decade, AIP member companies have invested over \$10 billion to maintain the reliability and efficiency of fuel supply meeting Australian quality standards.

Moreover, AIP member companies deliver the majority of bulk fuel supply to the Australian market.

- In relation to conventional petroleum fuels, AIP member companies operate all major petroleum refineries in Australia and supply around 90 percent of the transport fuel market with bulk petroleum fuels.
- In relation to gaseous fuels, AIP member companies are the major suppliers of bulk LPG to the domestic market, representing around two thirds of the market.
- In relation to biofuels, AIP member companies are the largest suppliers of ethanol and biodiesel blend fuels to the Australian market.

The Australian petroleum industry is also a significant contributor to the domestic economy providing direct and indirect economic benefits from its own activities and underpins the competitiveness of key export industries like mining, agriculture and manufacturing. In addition, as a technologically advanced industry, the refining industry employs and trains many highly skilled technical staff and also attracts international expertise into the Australian workforce.

Given their significant role and investment, AIP member companies have a very strong interest in consultations relating to government policy proposals impacting on the downstream petroleum industry, including those relating to fuel pricing.

2. INTRODUCTION

AIP welcomes the opportunity to provide input to the South Australian Productivity Commission's Commissioned Report on Fuel Pricing.

AIP has been actively engaged in retail and wholesale fuel price transparency and related policy issues for many years.

Consumers across Australia and in South Australia are benefiting from the direct link between domestic fuel prices and competitively priced fuels from the Asian market.

AIP considers the Australian fuel market to be highly competitive. However, there are differences within and across markets driven by a range of local market factors.

AIP also considers the Australian fuel market to be highly transparent along the entire supply chain. The retail fuels market has become increasingly transparent due to a range of initiatives led by both AIP and the ACCC. These include:

- AIP member company weekday publication of wholesale (Terminal Gate) prices, development of pricing apps and information on websites,
- highly visible price boards at every service station,
- detailed weekly pricing (international, wholesale and retail) data provided on the AIP website,
- regular ACCC price monitoring,
- ACCC quarterly and annual reports and Regional Market Studies, and
- price reporting on television and in print media, based on data provided by AIP.

This information has empowered consumers by allowing a better understanding of daily pricing as well as retail price cycles in markets where they occur. Price cycles occur as a result of the pricing policies of fuel retailers. Price cycles allows consumers to take advantage of the bottom of the cycle to buy cheaper fuel which is often sold at or below the wholesale cost price.

There is also an expanding range of third-party services and IT applications that build on this information by providing real time and personalised price comparisons. These include commercial applications such as MotorMouth and GasBuddy.

Given this evolution and innovation of various commercial offerings, government intervention, such as in New South Wales, Queensland, Northern Territory and Western Australia, is unwarranted and simply imposes costs on the industry without commensurate consumer benefit beyond that already freely available in the marketplace. This has been the longstanding view of the South Australian Government.

Furthermore, the display of highly visible price boards at service station sites also enables consumers to make quick price comparisons on the road if they are not using information technology. The recent changes made by the South Australian Government in this area were supported by AIP and Member Companies.

Given this competitive landscape and increasing market and price transparency, AIP believes that any government policy change or initiative to support market transparency needs to be:

- based on a demonstrated market failure
- based on sound evidence
- cognisant of current market circumstances and other policy and regulatory settings
- recognise free market outcomes/services achieving the same policy goals at no cost to industry or taxpayers
- transparent, with clear and credible objectives.

AIP and Member Companies are very concerned about the increasing burden of red tape and costs of doing business, as they strive to remain competitive in a challenging market environment. Unjustified regulation that imposes costs on business is strongly opposed by AIP and its members.

Any regulation must also be mindful of not encroaching into areas of legitimate and pro-competitive business operation, nor stifling business differentiation and innovation.

AIP believes that appropriate levels of transparency - both in terms of market operation and in pricing - is the best way to ensure consumers are best equipped to make informed purchasing decisions.

In this context, this submission:

- outlines how fuel prices are determined in Australia and identifies the relevant pricing benchmarks/markers
- examines the drivers for price differences in South Australia and why they might differ to other markets
- discusses appropriate arrangements for market and price transparency to assist consumers.

3. AUSTRALIAN LIQUID FUELS SUPPLY AND DEMAND

In 2018–19, Australia’s domestic refineries supplied around 48 percent of total petroleum products required by Australia’s major industries and through the fuel distribution network of around 7 100 service stations. The reliability of the fuel supply chain is robust given the unique logistic and geographic challenges in Australia.

Australian petroleum refineries are highly capital intensive, technically sophisticated facilities that employ a wide range of highly skilled personnel and provide significant economic and other benefits to key Australian industries.

The Australian oil refining industry produces a range of petroleum products comprising:

- petrol (38%)
- diesel (31%)
- jet fuel (14%)
- fuel oil (3%)
- LPG (3%)
- other products (11%).

It also produces a substantial volume of chemical feedstock.

In 2018–19, Australia consumed 60 710 ML (mega litres) of petroleum products - or around 166 ML per day- a 17 percent increase since 2010-11. Australian refineries produced 29 100 ML of petroleum products, of which around 4 percent was exported (excluding LPG). Net imports from over 20 countries accounted for 56 percent (or around 34 200 ML) of total consumption, as highlighted in the following chart. A proportion of this imported volume was supplied to northern and north western areas of Australia where it is more economic to supply directly from Asia due to domestic refinery locations and local terminal configuration. Numerous import terminals are located around Australia providing ready access to the Australian market. The bulk of imported fuel came from refiners and regional suppliers in Japan and South Korea and imports from India are increasing.

While Australia has its own indigenous crude oil production, this has been declining and around 79 percent was exported in 2018–19. These crudes are largely unsuitable for Australian refineries to manage their product slate, while the locations of Australian refineries also contribute to the quantity of exports. Crude oils required to meet the product demand mix in Australian refineries were imported from over 20 countries, but mainly from the Asia-Pacific region (57 percent) including New Zealand and PNG. The remaining imports of crude oil were sourced from the Middle East (23 percent), Africa (16 percent) and other countries (4 percent).

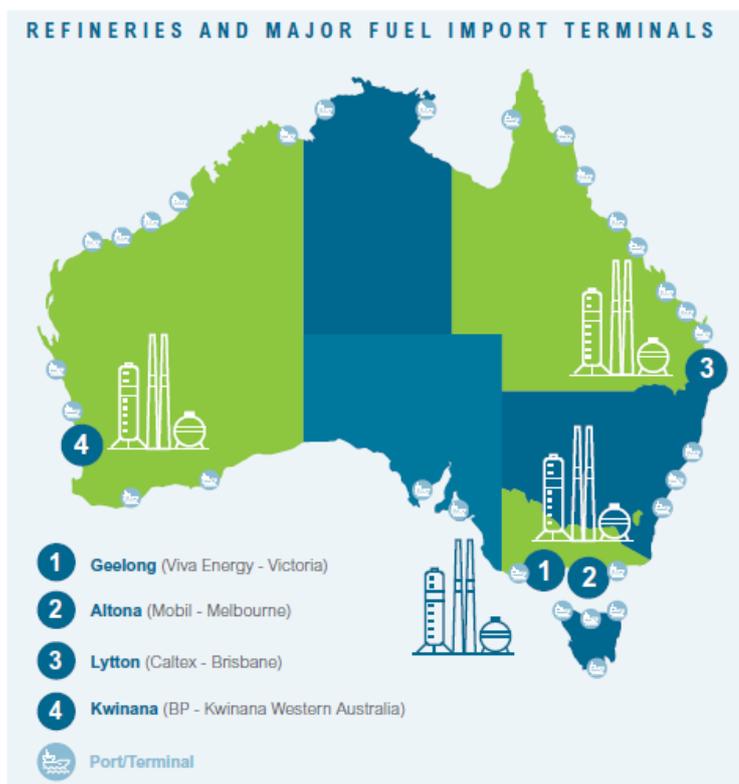
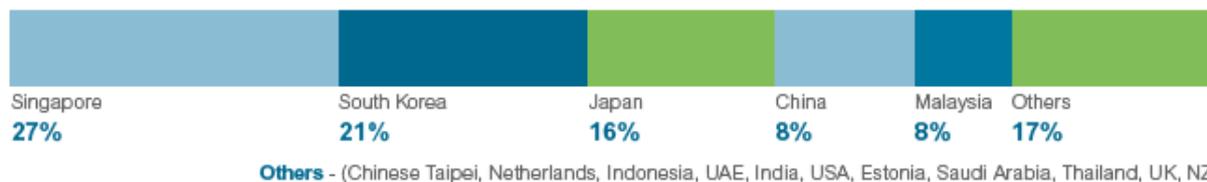


Chart 1: Imports of Petroleum Products, 2018-19

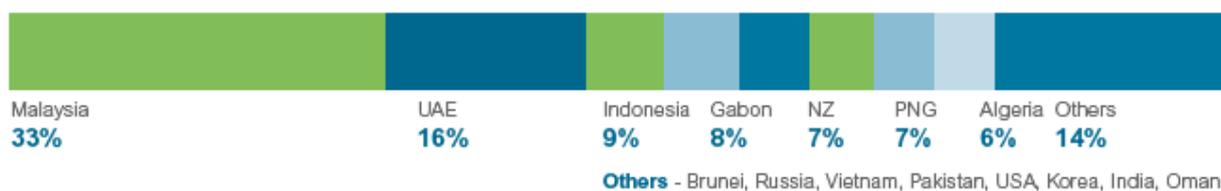
IMPORTS OF PETROLEUM PRODUCTIONS 2018-19



Source: Australian Petroleum Statistics

Chart 2: Imports of Crude Oil, 2018-19

IMPORTS OF CRUDE OIL 2018-19



Source: Australian Petroleum Statistics

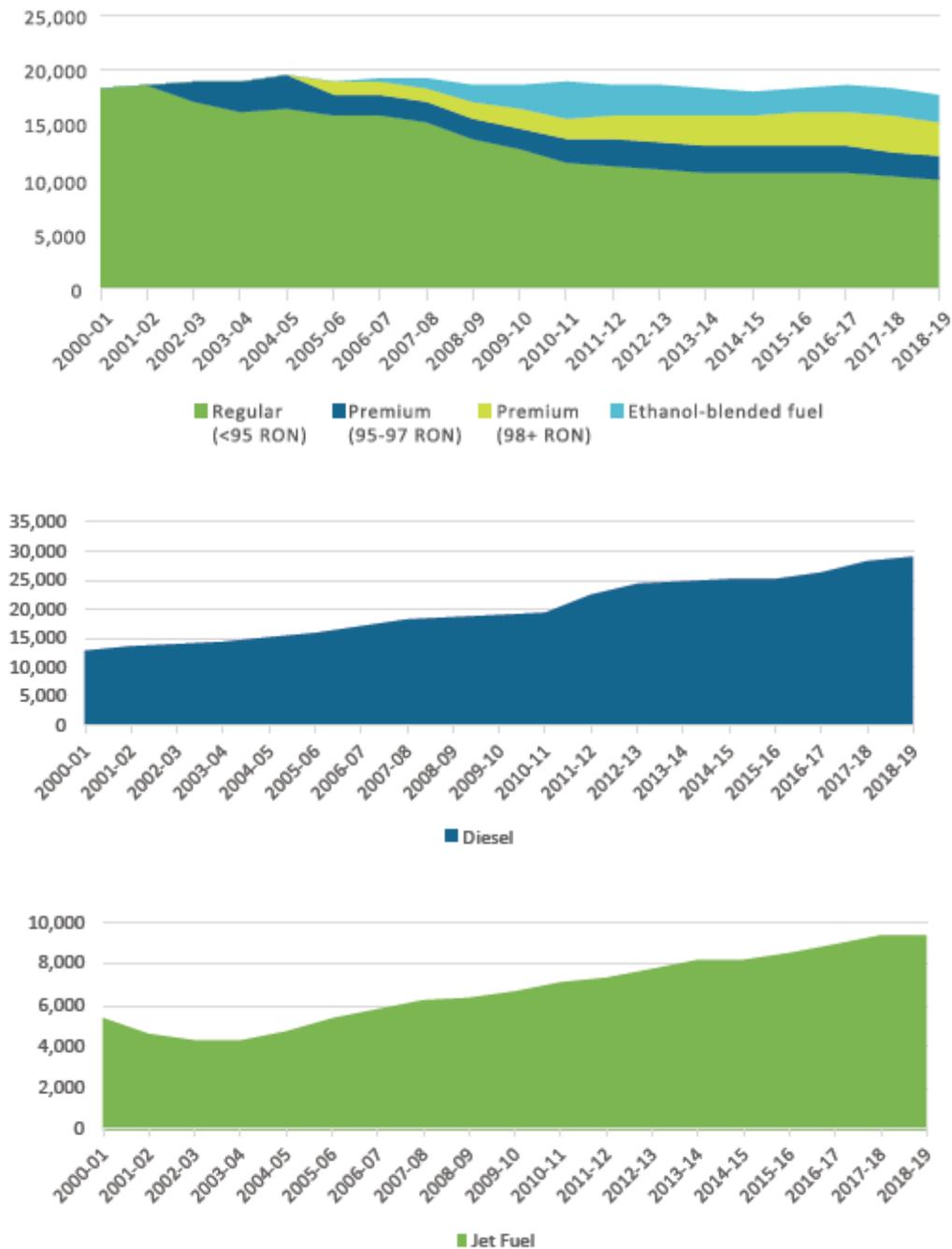
Changing Australian demand for petroleum products

Over the past decade, Australian use of petroleum products has increased by around 2 percent per year. Petrol, diesel and jet fuel use now comprise 92 percent of the total petroleum product demand.

Since 2000–01:

- Diesel use has increased by 118 percent due largely to growth in mining industry activities in Australia and growth in sales of vehicles with new generation diesel engine technology.
- Jet fuel use has increased by 75 percent due to growth in air travel for business and leisure.
- Petrol use has remained largely flat as vehicle fuel efficiency has continued to improve. Use of regular unleaded petrol (ULP) has declined by more than 43 percent as consumers choose new vehicles that recommend the use of higher-octane fuels. The demand for ethanol blend petrol peaked at 18 percent of petrol use in 2010–11, largely in response to the ethanol fuel mandate in NSW and Qld but has subsequently declined to less than 14 percent of total petrol use nationally.

Chart 3: Australian use of main petroleum products: 2001–02 to 2018–19, ML



Source: Australian Petroleum Statistics (various publications)

As shown in the Charts 4 and 5, there are also significant variations in petroleum product use across the Australian states and territories, which reflect a range of differing factors. These include the main economic activities and resources in jurisdictions, their population base and dispersion, the age and structure of vehicle fleets, and their infrastructure capacity and performance (e.g. airports). For example, there is higher diesel use in the mining States of WA, NT and QLD, higher jet fuel use in major airport centres, and higher use of premium gasoline in NSW as a consumer preference response to that government’s ethanol mandate policy.

Chart 4: Total Petroleum Products Demand, by State 2018-19

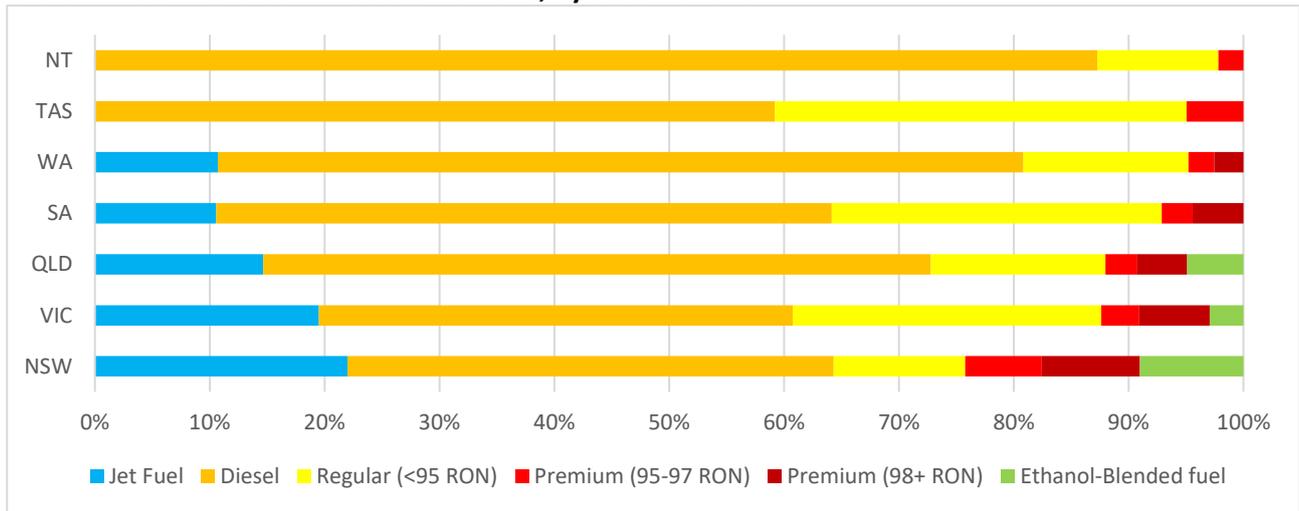
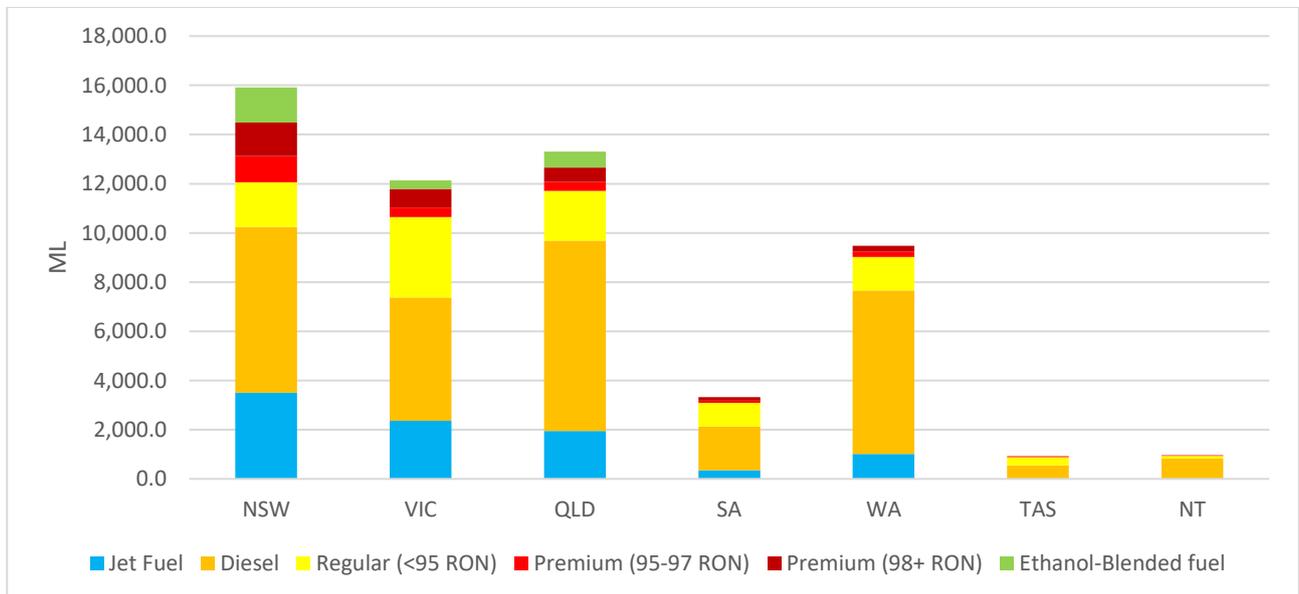
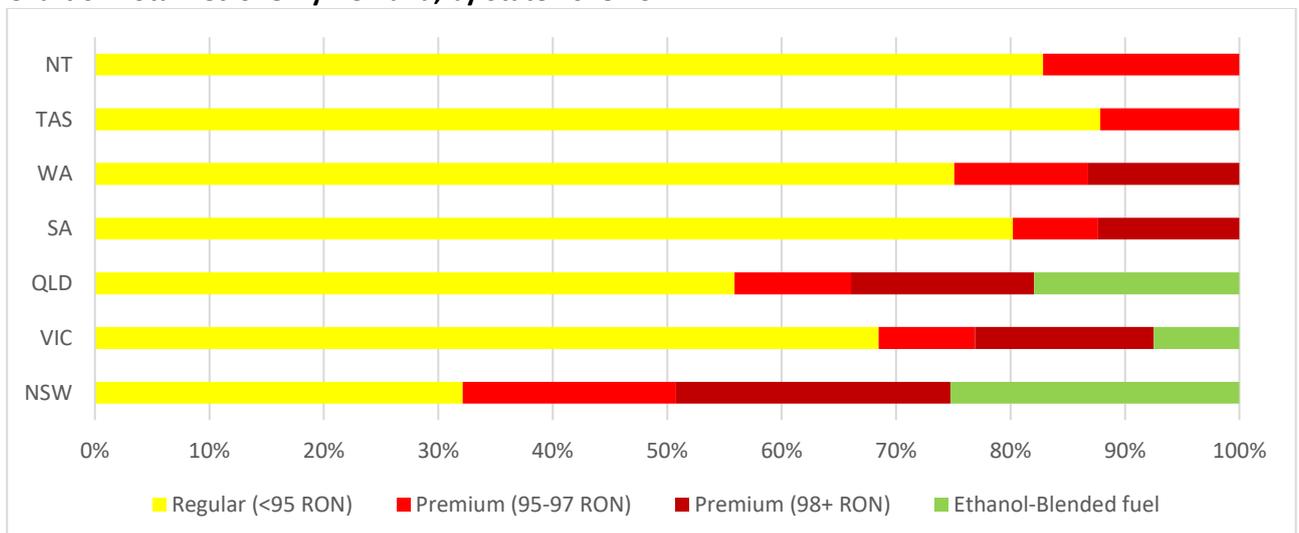


Chart 5: Total Product Demand, by Volume, By State, 2018-19



Source: Australian Petroleum Statistics (various publications),
 Note: Jet fuel data not published in NT and Tas due to confidentiality reasons

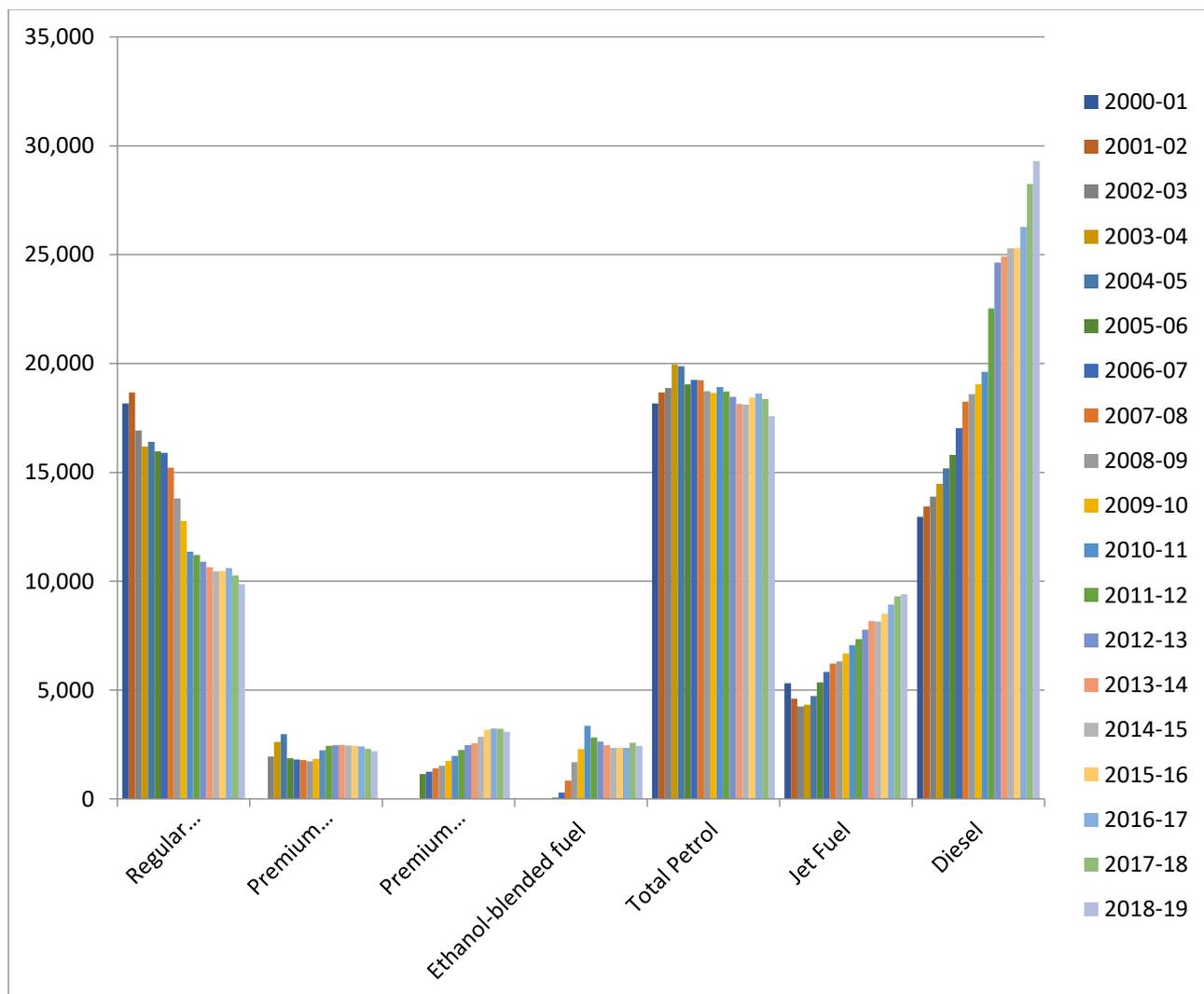
Chart 6: Total Petrol Only Demand, by State 2018-19



These changes in production and demand patterns mean that there is a substantially different supply profile for each type of fuel. Overall, Chart 7 on petroleum demand shows that imports of diesel and jet fuel have increased substantially over the last decade and imports now constitute the majority of supply. However, petrol is still largely supplied from Australian oil refineries with the import proportion at around 35 percent of the total.

The substantial portion of Australian refining supply of petrol to the Australian market underlines the importance of the Australian petrol market to the continued viability of the Australian refining sector. It also emphasises the importance of Australian refineries to the ongoing Australian liquid fuel supply reliability, especially for petrol.

Chart 7: Australian petroleum products demand: 2000-01 to 2018-19



Source: Australian Petroleum Statistics (various publications)

4. HOW FUEL PRICES ARE DETERMINED?

Fuel prices around the world are largely determined by regional markets and the benchmark prices and government taxes applying in those markets.

There are three distinct points throughout the supply chain for fuels which ultimately determines the final prices paid by consumers at the pump. For each of these market sectors, prices are fully transparent and freely and widely published on a daily basis. These market sectors are:

- international market - the relevant Australian petrol benchmark price is Singapore MOGAS95 unleaded and the relevant diesel benchmark is Singapore Gasoil 10ppm sulfur
- wholesale market - the Terminal Gate Prices in each seaboard fuel terminal are published by all major fuel wholesalers and AIP and updated each weekday
- retail market - extensive pricing data is available from a range of sources, including AIP and third-party providers, as well as highly visible price boards at each retail site.

Collectively, these contribute to a “fuel price build” for the final price ultimately paid by consumers at retail sites.

These markets are discussed in the following sections.

International Market

The price of fuel in Australia is largely dependent on world market prices, with these world market prices reflecting the market supply and demand.

Crude oil, petrol, diesel and jet fuel are bought and sold within their own specific trading markets. As they are different products – with their own unique physical characteristics, uses, and demand and supply factors – they are priced and traded separately.

Each market is regionally based. There are linkages and transactions between regional markets to balance global demand and supply.

Prices in regional markets can be volatile and can move in different directions from each other. This can be due to the impact of factors and events unique to one market or all markets globally. Australia’s regional market for petroleum products is the Asia Pacific market into which the Australian industry is highly integrated.

Price benchmarks or ‘markers’ for crude oil and petroleum products are highly transparent providing convenient indicators of what is happening with prices in specific markets. Information on changes in the prices of these markers is extensively reported on a daily basis.

Australia’s benchmark prices, including Tapis and North Sea Dated Brent crude oil, MOGAS95 petrol and Gasoil 10ppm sulphur diesel, are quoted daily by the independent monitoring agencies, Argus and Platts, based on transactions in the Singapore market on a given day. These prices are often also published by AIP, and widely referenced in the Australian media.

Supplies of crude oil and petroleum products are sold internationally and domestically through a variety of term contract arrangements and in spot transactions. Crude oil and petroleum products are also traded on futures markets like NYMEX and ICE.

The link between international and Australian prices

There is a very close relationship between international fuel prices and Australian wholesale and retail fuel prices.

To meet Australian demand, around 52 percent of petroleum products are imported, mostly from Asia. Singapore is the regional refining, distribution and trading centre and is among the world's largest.

Singapore prices are the key pricing benchmarks for Australia because they represent the competitive alternative for supply to Australia. Benchmark prices are adjusted by a negotiated quality premium that reflects Australia's high fuel standards.

Growth in demand for fuel in Australia is likely to continue to be largely met by imports given the relatively fixed configuration of the local refining industry, further strengthening the price relationship with Asian fuel prices.

Given Australia is a net importer of petroleum products, Australian refiners are compelled to price their locally manufactured fuel products to be competitive with fuel imports from Asia —called 'import parity' pricing.

If Australian fuel prices were below Singapore prices, Australian fuel suppliers would have no commercial incentive to import the fuel needed here because sales of that fuel would incur losses. In addition, Australian refiners would have an incentive to export production.

As the Singapore benchmark prices for fuel are quoted in US\$ per barrel terms, their price in Australian dollar terms also reflects movements in the US\$/A\$ exchange rate. This means that exchange rate movements can offset or magnify changes in Singapore fuel prices.

The Singapore market price for fuel plus shipping costs, Australian taxes and any impact of the exchange rate is called the refined product cost and represents around 85 to 90 per cent of the retail price of fuel in Australia.

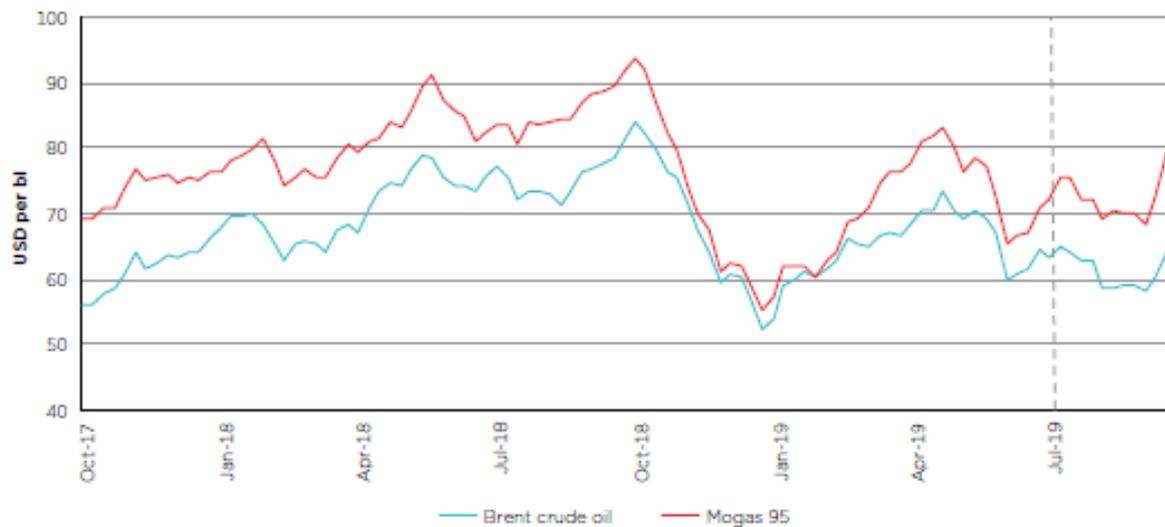
Overall market and fuel price transparency in Australia is assisted by data published by AIP and member companies. The ACCC also formally monitors fuel prices in Australia and publishes a report quarterly.

The ACCC, in its most recent report¹, has highlighted the strong correlation in price movements between the international crude price and the price of refined petroleum, concluding "Weekly average Mogas 95 prices moved in a similar manner to Brent crude oil prices over the two-year period".

This is shown in Chart 8 below.

¹ ACCC (2019), *Report on the Australian petroleum market – September Quarter 2019*, p30

Chart 8: Weekly average Brent Crude Oil and Mogas 95 prices: October 2017 to September 2019



Source: ACCC calculations based on Platts and OPIS data.

Wholesale Market

Australian wholesale fuel prices are closely linked to international prices through Import Parity Pricing (IPP).

The IPP is the 'landed cost' of refined fuel to import terminals around Australia and includes:

- the refinery benchmark price for fuel (e.g. for petrol - MOPS95 petrol)
- the 'quality premium' for specific Australian fuel quality standards
- freight
- exchange rate
- wharfage, insurance and loss.

The ACCC has concluded that the IPP benchmark has a strong relationship with actual costs of fuel imports into Australia.

Previous ACCC analysis has shown that "the actual import costs paid by major fuel suppliers closely followed the IPP over the past three years, with the difference averaging around 2.6 cents per litre."

With imports providing the marginal source of supply and with prices set according to IPP, the ACCC considers Australian refiners (and suppliers) have little scope to pass on costs that are out of line with international markers.

Terminal Gate Prices (TGPs or spot wholesale prices) typically include the IPP as well as 'wholesaling costs' to store and handle the fuel once it arrives in Australia and prior to its distribution to the domestic market. TGPs also include taxes (fuel excise and GST) and a small wholesale profit margin.

Wholesale price transparency in the Australian market is assisted by the regulated publication of TGPs for petrol and diesel by all AIP members. The ACCC has concluded that "by virtue of its transparency and the fact that it represents a fuel-only charge, TGP is a useful benchmark for analysing wholesale prices".

The latest ACCC financial analysis shows wholesale prices paid by retailers/service station operators vary slightly from TGP. In 2013-14, the average difference was 0.7 cent per litre. Differences can be explained by factors such as volume discounts applying to contracted customers and large orders, or charges for additional services as part of the transaction like delivery costs and use of proprietary brands.

According to the ACCC, the average annual net profit for the wholesale sector over a 12 year period (to 2013-14) was 0.3 cents per litre for petrol and 1.7 cents per litre across all fuels.

The Singapore to wholesale price lag

Generally, there is a time lag of one to two weeks between changes in international (Singapore) prices and changes in Australian wholesale prices.

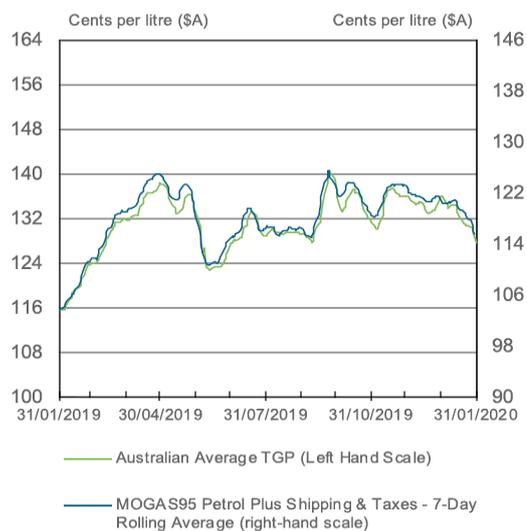
Importantly, this time lag occurs whether prices are going up (when the lag slows price rises to consumers) or prices are going down (when the lag delays price falls).

The lag is a result of using a rolling average of Singapore prices as part of the wholesale pricing methodologies of companies — very similar to that used by the ACCC when wholesale prices were government regulated.

According to the ACCC, this time lag can be longer during times of significant volatility in international prices.

The very close relationship between changes in MOPS95 Petrol and changes in Australian TGPs can be seen by applying a rolling average to the MOPS95 Petrol data, as shown in Chart 9. A 7-day rolling average is used to illustrate this.

Chart 9



Source: AIP

Retail Market

Once fuel leaves the terminal gate (where TGPs apply), retail prices vary across metropolitan and regional areas, reflecting local area factors and competition.

In understanding movements in retail or pump prices, it is important to distinguish between the factors that contribute to the underlying price level and the factors that drive pump or retail price volatility around that underlying level. Ultimately, the market sets the retail price which can be achieved.

- The underlying price level is largely determined by the international influences noted above and the domestic competitive market.
- In contrast, retail price volatility or stability is caused by the structure of the retail market and by variations in local area competitive factors (including price cycles or lack thereof).
- International and domestic factors can have different impacts. For example, there are often times when there are increasing or decreasing crude oil prices (reflecting international factors), but domestic petrol prices are moving in the opposite direction (reflecting domestic market factors including price cycles).

Within the competitive market framework, the underlying retail or pump price in Australia reflects the TGP plus all the costs of getting the fuel from the refinery/terminal to the end consumer. This includes:

- transport costs,
- administration and marketing costs,
- service station running costs like wages, rent and utilities.

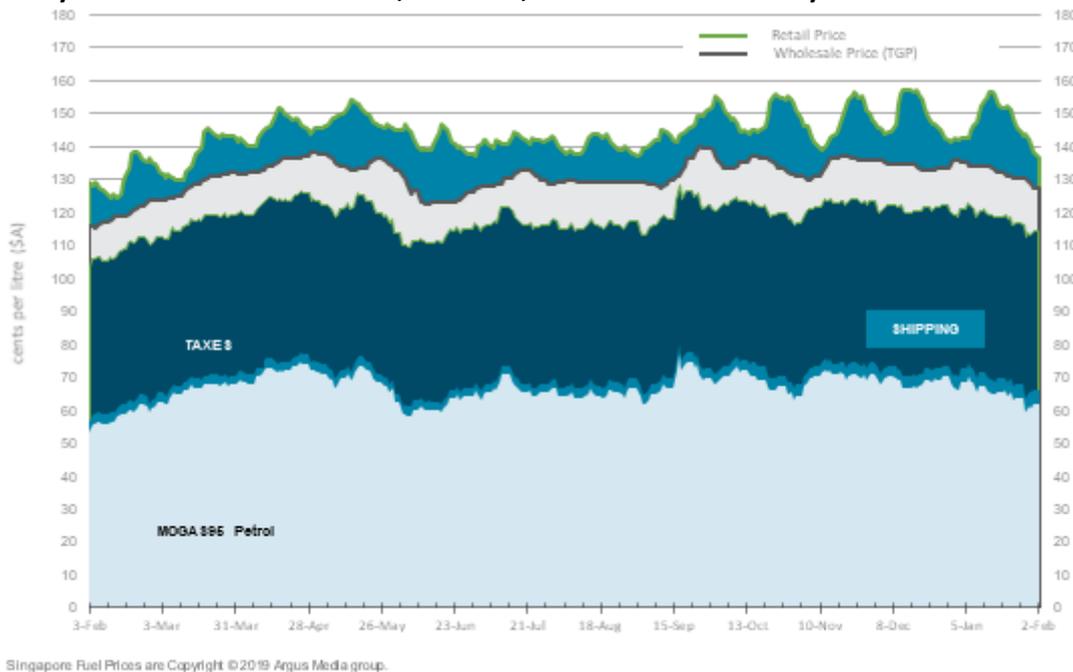
The TGP is typically around 90% of retail prices, with the remaining percentage covering the distribution, marketing and site operating costs.

The ability to cover costs depends on local area competition. A small proportion of the pump price (3-5%) is received by fuel retailers to cover these costs which leaves a small profit margin. ACCC analysis from their

most recent report that contains financial data shows retail sector net profit on petrol over the 12 years (to 2013-14) averaged 1.35 cents per litre.

This retail price build is illustrated below in Chart 10. It also demonstrates the close relationship between recent movements in national average ULP TGP and national average ULP pump prices.

Chart 10: Daily Prices for Unleaded Petrol, Australia, 52 weeks to 2 February 2020



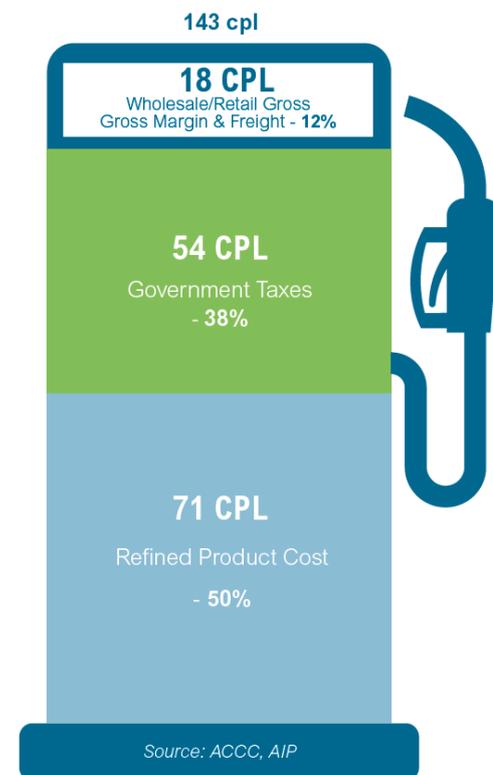
The ACCC considers that Australian retail fuel prices are highly competitive. Retail fuel prices apply to almost half of the fuel sold in Australia. The remainder of sales are under competitive tenders to commercial, industrial and agricultural buyers.

The components of the national average retail petrol price highlights the small proportion of the final price received by fuel wholesalers and retailers. In 2018-19, the tax component (GST and fuel excise) of the final price of petrol averaged about 38 percent or 54 cents per litre.

According to the ACCC, “petrol industry costs are dominated by refined international benchmark prices and taxes”. AIP member companies typically make payments from fuel excise, GST on fuels and income tax to the Australian Government of over \$20 billion per annum.

According to AIP and ACCC data, in 2018-19 the National Average petrol price was 143pl, with the retail price build shown in Chart 10.

Chart 10: Retail Petrol Price Components 2018-19



Price Cycles

Retail prices in many metropolitan areas typically follow a discounting cycle. These cycles occur as a result of the pricing policies of retailers and only retailers (i.e. they do not occur at the wholesale level). They also only tend to occur in Melbourne, Sydney, Brisbane, Adelaide and Perth, due to market size and more intense competition. For the same reason, they generally do not occur in the other capital cities or in regional markets.

The price cycle is where petrol prices fall steadily often due to aggressive discounting by service stations in an attempt to attract customers. However, maximum discounts can only be sustained for short periods of time because at the bottom of the discount cycle, retail prices can be lower than the wholesale cost price of the fuel. Therefore, retail prices eventually cycle upwards and restored to a level where some margin is available.

The ACCC notes that “price cycles are calculated from daily average prices in each city. This means that the actual increase in price at any individual retail site in that city can vary from the average price cycle increase in the city”².

It is also often claimed that retail petrol prices always increase before public holidays, and in particular ahead of long weekends. AIP is not aware of any evidence to support this claim. According to the ACCC, [they] “have examined petrol price increases before public holidays in each of the five largest cities since January 2007 and has consistently found that the average price cycle increase before public holidays was equal to or above the annual price increase just under half the time. Furthermore, there is little evidence that public holidays affect the timing of price cycle increases in any city”³.

Consumers can clearly benefit by buying heavily discounted petrol at the low point in the cycle. The ACCC provides advice on low price days of the week and they estimate that 60% of petrol sales are made when prices are below the average price of the cycle. The presence of a discounting cycle is a clear demonstration of vigorous competition.

Retail Margins

There are a range of factors influencing retail margins at a given site, including those outlined above. The ACCC uses a metric called Gross Indicative Retail Differences, or GIRDs. These are calculated by subtracting average terminal gate prices from average retail petrol prices.

The ACCC notes that:

TGPs are the prices at which petrol can be purchased from wholesalers in the spot market and are posted on a regular basis on the websites of the major wholesalers. Not all wholesale transactions are at TGPs – some will be at higher prices and some will be at lower prices, depending on the specific commercial arrangements. However, TGPs can be regarded as indicative wholesale prices. Furthermore, TGPs reflect the price of petrol only, and exclude other retail operating costs (such as branding, transportation, labour etc.).

*As a result, GIRD’s should be treated only as a useful approximate benchmark for the difference between wholesale and retail prices. They should not be confused with actual retail profits.*⁴

When used in isolation, a calculation based on GIRDs could lead to a distorted perception of the downstream petroleum market, as this metric does not reflect the profitability of retail fuel sales, nor does it take into account the investment made by market participants across all aspects of the supply chain. In

² ACCC (2014), *Monitoring of the Australian Petroleum Industry, Report of the ACCC in the prices, costs and profits of unleaded petrol in Australia*, p87

³ *Ibid*, p87-88

⁴ *Ibid*, p61

many cases, companies operating in the market ensure ongoing preventative maintenance and infrastructure upgrades in order to be more efficient, meet regulatory requirements, and to ensure customer, community and staff safety. These costs must also be considered when assessing margins as companies making these investments require an adequate return on capital.

For example, one AIP member has observed significant increases in operating costs over the past five years, including:

- Utilities (gas and electricity), increased by more than 20%
- Repairs and maintenance costs, increased by around 10%
- Salaries and wages, increased by around 5%
- Rental costs, increased at an average of around 15%

These costs, among other factors, are integral to making decisions about retail fuel prices.

Companies operating retail sites are also subject to significant regulatory costs, which has grown markedly in recent years. This fact has been recognised by the ACCC, noting that Government intervention and therefore cost increases have been most significant in NSW due to the biofuels mandate, price board regulation, vapour recovery equipment and NSW Fuel Watch.

Diesel Prices

For all intents and purposes, diesel prices are determined in a manner consistent with the methodology used to determine petrol prices, as outlined above.

Like petrol, the price of diesel is internationally based. For Australian diesel, the regional market is Asia-Pacific. The Singapore benchmark price of diesel (Gasoil, 10ppm sulphur diesel) is the current diesel price benchmark for Australia. The Singapore diesel price can be significantly higher or lower to the price paid, again reflecting supply and demand pressures.

Diesel is the dominant fuel in Asia and in recent years there has been a significant increase in demand, particularly as a result of the economic and industrial growth in China and India. Australian demand growth has also been strong on the back of our growing economy and the higher demand from industry - particularly as a result of mining and commodities industries. This demand profile was highlighted in the previous chapter.

The international price for diesel is also affected by the demand for other petroleum products. This is because diesel is one of the middle distillates, which also includes kerosene, jet fuel and heating oil. If Asian refiners produce more kerosene or jet fuel as a result of increased demand, they will produce less diesel, and this has an impact on supply availability and price. There is also a seasonal shift of refining production from petrol in the northern summer towards distillate (including heating oil) in the northern winter that affects relative prices of these products.

Australian wholesale prices for diesel are also determined in a manner consistent with the petrol wholesale price. That is, the TGP is closely linked to the Singapore price, using the IPP "landed cost", plus taxes. Again, 95% of the wholesale cost of diesel consists of the international diesel price, plus shipping and taxes, with the remaining 5% being accounted for by insurance, local wharfage and terminal costs, and a small wholesale marketing margin (where competitively possible). The Diesel TGP also exhibits the same short lag of 1-2 weeks between changes in Singapore prices and Australian wholesale prices.

The diesel retail price methodology is also reasonably consistent with that evident in the petrol market. Historically, diesel and petrol prices have followed each other. However, a gap can open up for periods as a result of changes in the relativity between international diesel and petrol prices.

In addition to the international factors influencing Australian wholesale prices, diesel pump prices here are affected by domestic market factors.

- Only around 25% of the diesel used in Australia is sold through retail outlets and much of that is sold to account customers often on fuel cards which is at a contracted price. Most diesel sold in Australia is done so in bulk to commercial/industrial customers (e.g. mining and transport companies) on term contracts.
- In the Australian retail market, only a small proportion of diesel is sold to private customers.

Based on these factors, unlike petrol prices, retail diesel prices are not subject to aggressive price discounting or price cycles. At the majority of service stations, retailers concentrate on petrol discounting to drive overall fuel sales volumes and associated convenience store sales.

It remains the case, however, that the TGP is typically around 90% of the retail price. Similarly, the factors influencing the differences between metro and regional prices (discussed in Chapter 5) also apply to diesel.

LPG Prices

AIP is not in a position to provide comment on LPG pricing and methodology, other than to note it exhibits significantly different market characteristics and therefore the pricing methodology differs markedly to traditional liquid transport fuels. AIP suggests the committee talk with the relevant industry body and suppliers operating in the LPG market.

5. REGIONAL RETAIL FUEL PRICING

Key Features of Regional Fuel Markets

Regional fuel sites generally differ from the majority of sites in metro areas. Some of the key features of the retail market in regional Australia typically include the following:

- Lower fuel turnover and hence lower profits from fuel sales (regional service stations typically receive one tanker every 2-3 weeks vs one or more tankers per day at metro sites).
- The viability or feasibility of service station expansion can be constrained by, lower turnovers and site profitability, aging capital or by State/Territory government regulations.
 - Regional service stations tend to be older established businesses, typically without the capital backing or the likelihood of a necessary commercial return for site upgrades (e.g. for new storage tanks, extra pumps, new forecourt, modern and expanded convenience store)
 - Site and/or service expansion can also be constrained by State/Territory government regulations and environmental expenditure requirements (e.g. to prevent leaks from underground storage tanks – most ‘at risk’ sites are in regional Australia where single skin tanks are more prevalent).
- The average customer base per service station is around 2,000 people in regional Australia and in many towns the customer base is between a quarter or half of this number. In comparison, metro service stations typically have an average customer base of around 4,000 to 5,000 people per service station.
- Most major towns have at least one supermarket service station operator
- Generally, the more successful service stations in regional Australia are supermarkets and locally based independently owned chains (of either major oil company branded or independently branded retailers) who are often involved in fuel distribution as well.

Regional fuel prices are typically more stable in regional areas because of a general absence of discounting (i.e. the discounting price cycle discussed in Chapter 4).

As noted by the ACCC in its most recent quarterly report⁵:

“Movements in retail petrol prices in regional locations are largely driven by changes in international refined petrol prices and the AUD–USD exchange rate, as they are in the five largest cities. However, prices are generally higher in regional locations. A number of factors may contribute to these higher prices:

- *a lower level of local competition;*
- *lower volumes of fuel sold;*
- *distance/ location factors; and*
- *lower convenience store sales.*

The influence of these factors varies significantly from location to location. This means that there may be substantial differences in prices between specific regional locations”.

It is important to note that the retail fuels market is not a single, homogenous market where the price paid at the pump is consistent across all sites, regardless of location be they metro or regional. Rather, each local retail market is heavily influenced by a multitude of local factors. These differences predominantly explain the different prices paid by consumers.

These retail markets tend to be small, such as the sites operating within metro suburbs or local regions/town centres. As such, prices can vary significantly between sites considered “within driving distance”. These local markets will also seek to vary the demand requirements of that particular local

⁵ ACCC (2019), *op.cit.*, p27

market which can also have an influence on price. An example may be where a local market has greater demand for diesel products or premium fuels and as such sites are configured to better meet this customer demand with prices also reflecting the demand for those particular products.

How to analyse regional fuel prices

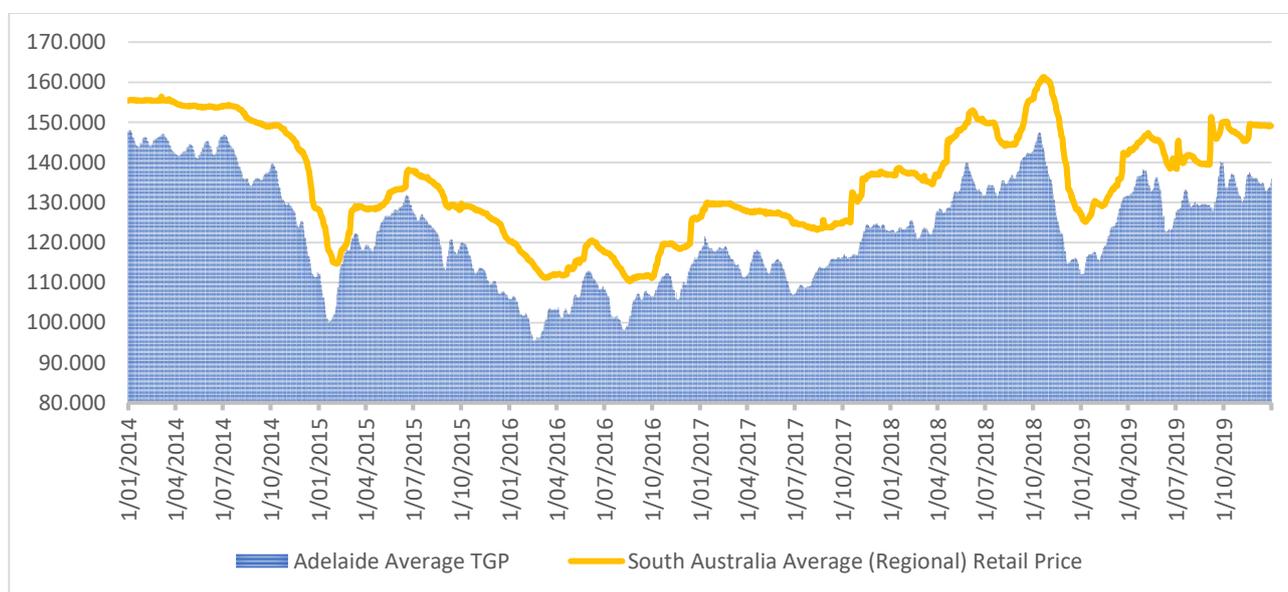
In analysing fuel price trends in any location, the two key factors are:

- The relevant benchmark price to compare local price trends to
- How local market prices actually compare to the benchmark price

Benchmark Price

For regional retail prices, extensive analysis confirms that retail petrol prices generally have a very strong link with the relevant terminal gate price in the State. In the case of South Australia, this is the Adelaide TGP. This strong correlation is shown in the following chart for prices over the past 5 years.

Chart 12: Average Adelaide TGP Price and SA Regional Retail ULP Price, Weekly, Oct 2014-Oct 2019



Source: AIP

For regional retail prices, this link between TGP and retail prices is stronger than any apparent link to the retail petrol price in the closest capital city. This link is much stronger than any relationship to an average of a range of capital city prices (including cities at opposite sides/ends of the country).

This strong link to TPGs rather than capital city retail prices also makes sense on business/commercial grounds. The cost structure of an individual regional site, and its product offering, is likely to have a greater influence on price determination than any competitive pressure from capital cities. This is because:

- regional sites typically have different business drivers/model/owners compared to capital cities
- regional centres typically have a lower number of retail sites, a lower customer base and therefore lower sales of fuel and store products
- there is typically no retail discounting cycle in regional centres.

Price Comparison

AIP analysis of regional retail prices and TGP for the nearest capital city confirms that there is a very strong relationship between these prices when appropriately lagged. The lag between the TGP price and the regional retail price is also shown in Chart 12.

The lag is explained by regional sites having different fuel purchasing and supply patterns to capital city sites, and reflects:

- the time taken for a regional site to turn over its fuel stock:
 - for example, regional service stations typically receive one tanker every 2-3 weeks versus one or more tankers per day at some major capital city sites
 - Thus, at any time, some regional sites might still be recovering the cost of fuel in their tanks that was paid for weeks ago
- The nature of the supply chain servicing a regional centre. For example, for some regional service stations:
 - Storage, handling costs and lags may be significant where fuel may be stored in regional depots and therefore double-handled, rather than being delivered from an import/refinery terminal. For regional centres with multiple handling/steps/parties in the supply chain before final retail delivery, a lag-on-lag effect would likely be present
 - Their fuel supply might not be sourced from the supplier with closest proximity (e.g. they may have secured a competitive supply contract from a more distant supplier).

Therefore, a robust assessment of petrol price trends in any regional centre should be grounded in these market and operational realities. For example, this would involve, for each region/site, taking proper account in any analysis of:

1. the price lag from the relevant TGP
2. local area factors and competition (population, number of sites, products sold, etc)
3. the supply chain for individual regions and for service stations sites within them
4. the business drivers and models of individual service stations

Given the above factors, which will be different for each regional area and service station, it is not surprising that analysis confirms different lags and markets for each regional centre.

In 2015, AIP conducted detailed econometric analysis of 170 locations across Australia that showed that:

- the daily average of TGPs for the closest capital city is the best price benchmark for regional retail centres in that state
- calculating a price differential in any regional location should best take account of the appropriate lag applying for that location to ensure the community and other stakeholders are provided with an accurate reading of the 'price differential' compared to the most relevant price benchmark.

For South Australia, the differing lags are shown in the following table (no data is available where blank):

Regional Locations	Lag on Adelaide TGPs	Lag on Adelaide retail prices	Lag on ACCC's average pf the five largest capital city average price
Adelaide	2		
Bordertown	14	11	10
Ceduna	11	10	
Clare	8	5	3
Kadina	8	6	
Keith	9	6	
Loxton	11	9	
Mt Gambier	15	11	
Murray Bridge	13	10	
Naracoorte	17	14	
Port Augusta	19	10	
Port Lincoln	15	11	
Port Pirie	12	10	
Renmark	15	10	
Tailem Bend	10	7	
Victor Harbour	13	10	
Whyalla	16	12	12

The effect of the wholesale to retail lag is outlined in the ACCC's most recent Quarterly report:

There is usually a time lag between changes in TGPs and changes in retail prices, meaning that retailers do not necessarily pass on movements in TGPs straight away. This may reflect the stage in the petrol price cycle when TGPs change, or that some retailers may not need to purchase petrol at the time when TGPs change.

When TGPs increase by large amounts in a short period (as occurred in the September quarter 2018) these lags often have the effect of reducing GIRDs. Conversely, when TGPs decrease by large amounts in a short period (which occurred in the December quarter 2018) these lags often have the effect of increasing GIRDs.

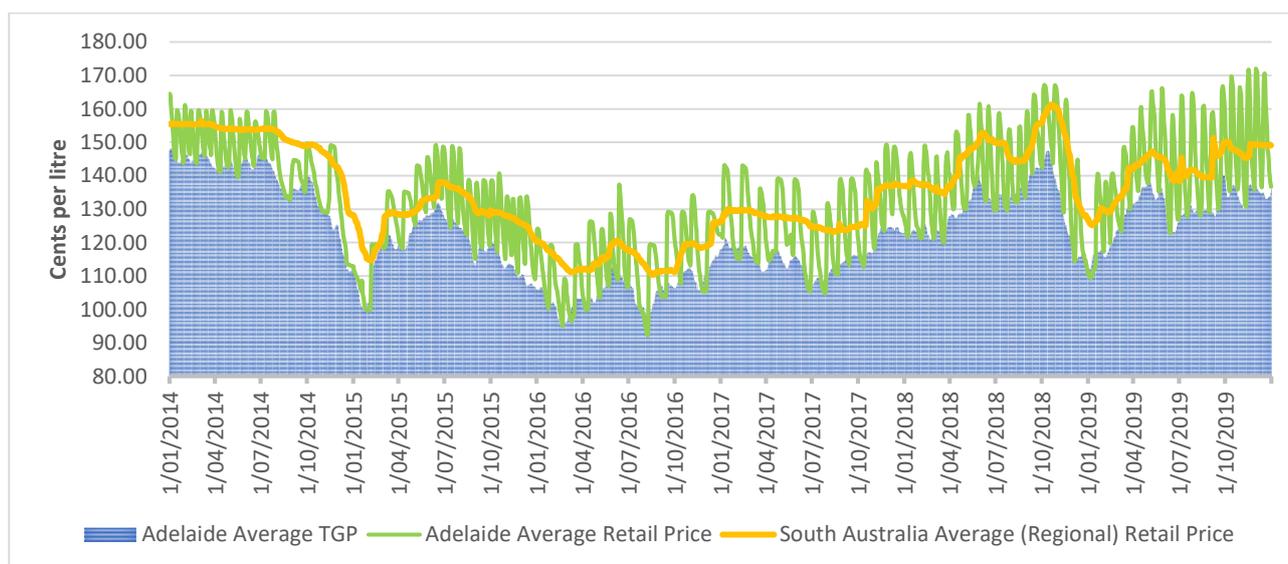
In regional locations, where petrol sales are lower and stocks are replenished less often, the effect of these lags on GIRDs is frequently magnified.⁶

⁶ ACCC (2019), *op.cit.*, p18

6. SOUTH AUSTRALIAN RETAIL FUELS MARKET

Consistent with other markets, around 85-90 percent of the retail price of fuel is determined by the international price of gasoline and government taxes (excise and GST). Chart 13 clearly demonstrates the close correlation between the wholesale price of fuel and the retail price of fuel, through the consistent movements of the regional south Australian average price.

Chart 13: Adelaide Terminal Gate Price, Adelaide (Retail Price) and South Australian (Regional) Retail Price, Jan 2014 to Dec 2019



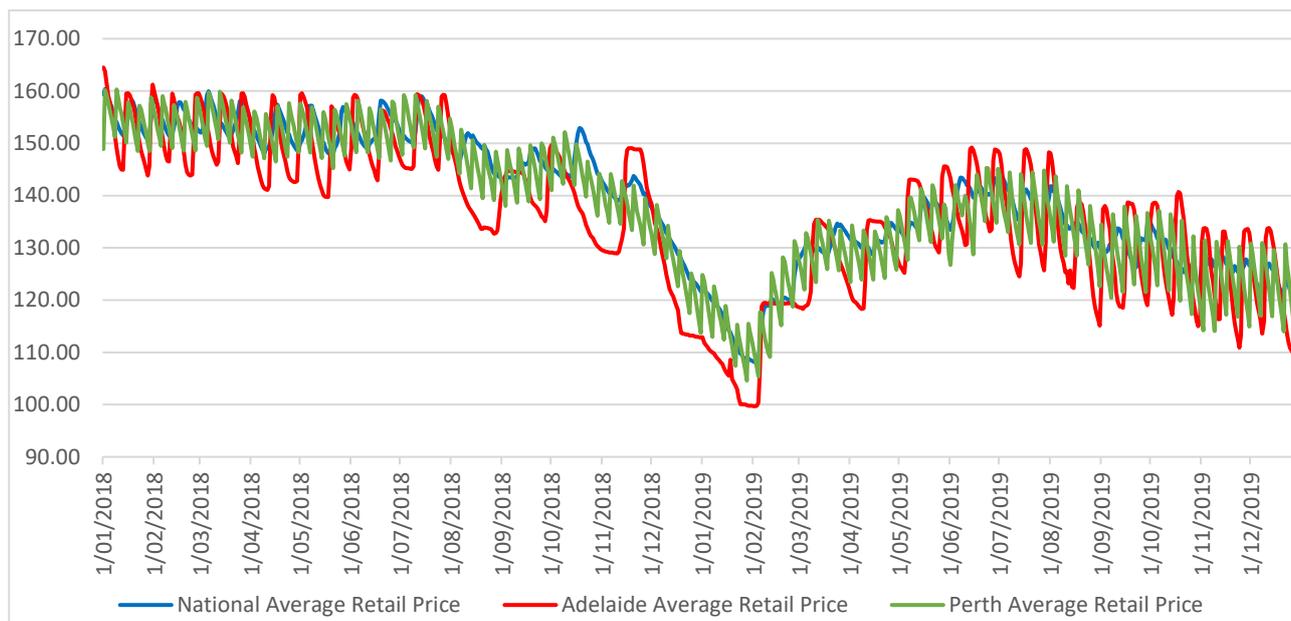
Source: AIP

Due to intense local market competition, Adelaide also exhibits a consistent price cycle (discussed in Chapter 4) and also shown in Chart 13. Key to note is that while prices do rise to a point higher than the more stable SA Regional retail price, the price cycle also provides the opportunity for consumers to buy fuel at a significant discount, often plunging lower than the wholesale cost of fuel. Indeed, during 2019, competition in the Adelaide market delivered significantly more days where the fuel price was lower than the average price than were above it, as shown in the table below. Furthermore, Adelaide consumers had more opportunities to purchase fuel at below average price than any other market (with a price cycle) in Australia.

	2019 Days Below Local Market Average Price	2019 Days Above Local Market Average Price
National	160	205
Adelaide	199	166
Sydney	188	177
Melbourne	187	178
Brisbane	189	176
Perth	179	186

This pricing benefit occurred in the absence of any formal/additional price monitoring. This point is further highlighted in the following chart comparing Adelaide prices with the more restrictive regulatory requirements under the WA Fuel Watch scheme.

Chart 14: National, Adelaide and Perth Average Retail Price, Jan 2018 to Dec 2019



Source: AIP

While AIP does not encourage fuel price comparisons between capital cities given the differing local market factors at play, it is illustrative to note in Chart 14 that the discount at the bottom of the Adelaide retail price cycle is consistently below the bottom of the Perth price cycle. During 2019, this competitive tension often saw prices below the cost of wholesale fuel which inevitably required Adelaide retailers to try and recover some of these losses resulting in a marginally higher price at the peak of the cycle. The duration of the Adelaide price cycle has also shortened significantly during 2019.

AIP notes that it is important to consider and analyse the Australian retail fuels market not as a single homogenous entity, but rather as a multitude of local markets, each influenced by a range of local market factors specific to that area. South Australia is no different. The constant change and evolution in competitive forces operating within and across markets will result in changes in trends over time. Unique market dynamics, such as the arrival of new market entrants or a significant increase in the number of retail sites within a local market (as is currently the case in Brisbane where average prices have fallen) will inevitably result in changes to comparative data across markets. Regulatory costs can also have an impact – invariably upward – as retailers need to recover the costs associated with regulation.

While these pricing trends do change, Adelaide has consistently witnessed lower retail prices than most other capital city markets in Australia. According to Motormouth, Adelaide has ranked either number 1 or number 2 in terms of the lowest average price over the past 5 years, with the exception of 2019.

Recent upward movements should not necessarily be interpreted as a lessening of competition in Adelaide, but rather a reflection of changed market dynamics/increased competitive tension in the other capital cities.

7. MARKET AND PRICE TRANSPARENCY

Providing transparency in the fuels market is important to dispel myths within the community that companies operating in the market are deliberately inflating prices or taking advantage of consumers. This transparency extends not simply to the publication of prices, but also to the market itself. Understanding how the market operates, and the factors influencing it, is critical to understanding retail prices.

There exists a number of key factors helping to facilitate this important transparency.

The Australian Competition and Consumer Commission (ACCC)

The ACCC plays an important, independent role in providing a range of functions relating to the fuels market, including increased market transparency. The ACCC also has enforcement functions to ensure necessary competitive factors exist and operate within the market.

This role is supported by AIP and member companies.

The ACCC has had a role in the fuels market since its inception in 1995. The ACCC formally monitors and reports the prices, costs and profits relating to the supply of fuel in the petroleum industry throughout Australia. The ACCC's monitoring role is by Ministerial direction under the Competition and Consumer Act 2010.

The ACCC financial reporting has covered the three major sectors of the downstream petroleum industry:

- total supply (refining and importing)
- wholesaling
- retailing across all major market operators.

For each sector, the ACCC reporting presents detailed cost, revenue and profitability data.

The extensive industry data required for these ACCC reports is supplied under legal requirement each year by AIP member companies and other major fuel suppliers operating in the Australian market.

The ACCC has not published financial performance data for the petroleum industry since the December 2014 ACCC Monitoring Report. In 2014, the Australian Government directed the ACCC to focus its attention on shorter, "consumer friendly" quarterly reports.

This analysis by the ACCC has provided Governments and the community with the necessary transparency on how fuel markets are structured and the factors influencing prices, including in regional markets. These factors were discussed in Chapters 4 and 5.

In acknowledging the highly competitive nature of the industry, as well as the wealth of information now available, the key focus of the ACCC has now moved towards consumer price discovery for retail prices in local areas, with ACCC Chairman Rod Sims recently highlighting in a speech that:

"...the current focus of the ACCC is to highlight to consumers the ability of technology to help them find where the cheapest petrol prices are, to encourage them to buy where petrol is cheapest, and to reward retailers which have the lowest prices".

Price Transparency

In its work in this area, the ACCC has noted that price cycles, although not generally evident in regional areas and smaller capital cities, are often confusing to consumers, and therefore provides information on its website about when to buy in cities.

However, the ACCC also believes that until recently a missing piece of the puzzle for consumers has been knowing where to buy. Fuel price transparency apps and websites allow consumers to work out where to buy when you might see very large differences in prices between retail sites.

There is currently a range of free information available to motorists in South Australia to support these efficient fuel purchasing decisions.

These are discussed below.

Australian Institute of Petroleum (AIP) and Member Companies

AIP agrees with ACCC Report findings that effective access to “information about current retail petrol prices enables motorists to shop around and purchase fuel at relatively lower priced retail sites. This promotes competitive market behaviour and rewards discounters, as more consumers will see which petrol retailers are discounting.”

AIP and its member companies expend significant efforts and resources to increase market transparency, particularly through the free publication of comprehensive market prices data on a daily and weekly basis, and at jurisdictional, regional and town levels (on the AIP website at www.aip.com.au) and member company websites for terminal gate (wholesale) prices at terminals across the country. This represents a significant investment and commitment to market transparency by AIP and member companies.

AIP Member Companies have also provided comprehensive data to the ACCC for many years which has underpinned their monitoring and analysis role. Comprehensive industry data is also provided to relevant Australian Government agencies, including Treasury and the ABS. Data provided to the Department of Energy and Environment also assists in the preparation of the monthly Australian Petroleum Statistics publications. AIP anticipates that the robustness and coverage of this publication will soon improve as companies beyond the AIP membership have been included in the new mandatory reporting regime.

Fuel Price Boards

Highly visible price boards at retail sites allow customers to take advantage of low prices and retailers to observe price discounting by competitors. AIP does not believe that a clear and strong case has been made for governments regulating price boards in the Australian market. AIP considers that the general competition laws are adequate to deal with any unlawful price board conduct (e.g. false and misleading advertising) and consumers already have access to a wide and expanding range of timely fuel pricing information and technology services to make informed and efficient fuel purchasing decisions.

However, AIP acknowledges government’s desire to give consumers consistent information to make these decisions, but AIP believes that only a light touch, low cost and low impact regulation is justified. The minimum standard model applied in Victoria, South Australia, Queensland and the ACT represents a pragmatic and proportional approach that helps to minimise the additional operating costs for most fuel retailers to comply whilst facilitating a move towards more consistent price board regulation across jurisdictions, which is particularly important to AIP members who operate across multiple jurisdictions in Australia.

This model requires price boards, where they exist, to display only undiscounted prices and for changes to price board and pump displays to be sequenced or simultaneous (consistent with longstanding industry practice). The advertisement of the actual discount offer, where they exist, is permitted under the model.

AIP sees no clear justification for moving away from this approach.

Fuel Price Applications

There is a range of independent third-party information available in South Australia to make efficient purchasing decisions which are published by commercial data providers through the internet and mobile phone applications (Apps) without charge to motorists or taxpayers.

These information services include the MotorMouth App, which provides comprehensive site-specific data across and within all Australian jurisdictions including the South Australia. Prices are published in near real time within 15-30 minutes of the change in price.

Motorists can also obtain information about retail prices using the apps of the petrol retailers (such as Woolworths and 7-Eleven) as well as other crowdsourced general apps such as GasBuddy which have coverage throughout the Territory and nationally.

State motoring bodies, including the RAA, also publish pricing data and other educational material for their jurisdiction.

AIP also understand there are other Apps are under development which are designed to take advantage of the ACCC Informed Sources undertaking which would also be available to consumers. So, the range of independent free services is growing every day with market and commercial opportunities, and through business innovation.

AIP does not see a clear market failure in relation to retail price transparency in South Australia to justify an additional system which imposes costs on businesses and taxpayers. Indeed, AIP is concerned that there is significant potential to stifle industry innovation and drive out third party participants should Government intervene to establish their own system.

Government Pricing Initiatives

New South Wales introduced its FuelCheck system in late 2016, as part of its reforms to its Biofuels Mandate. AIP consistently and strongly opposed the introduction of NSW FuelCheck on the basis that:

- the retail fuels market in NSW was already transparent and highly competitive, a view which has been consistently supported by the ACCC
- the market is continually evolving and responding to consumer needs
- FuelCheck would be a costly regulatory intervention for both industry and government
- A number of third-party providers including MotorMouth and GasBuddy were already providing similar pricing data without the need for intervention or additional cost. FuelCheck has the capacity to put these innovative small business ventures at risk
- The system imposed significant additional corporate risk and had scope for unwarranted reputational damage
- There is evidence that similar regulatory interventions, both domestically and internationally, have resulted in increased prices paid by consumers.

There is no clear evidence currently available that the scheme has been effective, widely used by motorists, is meeting its policy objectives and has changed consumer and market behaviour. NSW Fair Trading Office has recently reported that on average there are around 13,000 users utilising FuelCheck each day, which is insignificant given the many millions of NSW motorists.

In contrast, there is clear evidence that:

- NSW FuelCheck required significant investment from fuel retailers that required modifications to corporate pricing and reporting systems to meet the “real-time” requirement. This approach also imposed additional regulatory risk through the need to ensure instant alignment of the published fuel price on the board, the bowser and the electronic price board. This is especially challenging for those companies providing price updates in bulk for multiple sites. There were also significant

industry concerns with the legislative language which raised a number of risks for price setters and site operators.

- NSW FuelCheck required a major Government investment in Information Technology Infrastructure. The most recent public estimates (Finance Services & Innovation Annual Report) indicate a spend to date of \$300,000. NSW initially went to tender but rescinded the EOI 10 days later and awarded the work to the Government's own internal IT provider "OneGov".

Importantly, based on a very initial assessment by AIP member companies, AIP does not consider that the direct and identical application of the NSW scheme to South Australia will reduce compliance costs for retailers through implied economies of scale. It would require similar costly modifications to corporate pricing and reporting systems to meet any "real-time" requirement. AIP also notes that the NSW FuelCheck scheme took an extended period to implement (including smoothing out teething issues) at both government and industry levels (including because of a range of practical and technical matters that needed to be resolved).

The Northern Territory pursued a similar FuelCheck model to New South Wales which added further costs to industry without clearly articulating the benefit to consumers.

In Queensland, the Government has undertaken a 2-year trial of real-time price reporting, despite research undertaken by Griffith University which found that the benefits from the NSW scheme were at best neutral in metropolitan areas and came at a potential cost to regional consumers. The Queensland systems differs in that it attempts to utilise a commercial third-party aggregator and builds on existing data supply arrangements rather than developing a new system unique to that state. It is still too early to make a meaningful assessment on the impact of the trial on competition and prices in Queensland.

AIP notes that the RACQ has claimed that the price trial has led to an increase in the number of "cheap days" in the greater Brisbane area. AIP understands that a "cheap day" has been defined simply as when the Gross Indicative Retail Margin (GIRD) was less than 7 cpl. The RACQ then went on to claim that this had saved motorists around \$122m.

This appears to be selective data analysis with no justification as to why 7 cpl might be considered a "cheap day". Furthermore, the simple extrapolation justifying economy wide savings as a result of the scheme is highly misleading given the arbitrary definition of a cheap day.

As is more likely the case, any lower average price found in the Brisbane market has been due to a change in the competitive local market dynamics as a consequence of the introduction of a number of new sites in that market. This view was supported by the ACCC in its latest Quarterly report.

In Western Australia, the Government adopted a system where retailers are required to provide their prices at 2pm the day before which are then locked-in for 24 hours from 6am the following day. Prices are available from 2:30pm with any variation, including discounting, deemed illegal.

There is considerable debate on the effect on prices of the WA system. While it is true that WA consumers have had the opportunity to buy fuel at a discounted price on one or two days within the weekly cycle, the price appears to be higher for longer periods and has led to increased margins for retailers.

AIP has consistently opposed the WA scheme. While it is fair to say that it has delivered some degree of predictability to WA consumers, it has prevented fuel retailers from actively competing as dynamically as they otherwise would have done as evidenced in other markets where prices at the bottom of the cycle are often seen to dive lower than the terminal gate price.

In contrast to the schemes noted above, the Tasmanian Government has partnered with the RACT and third-party provider GasBuddy in a manner that does not require Government intervention, including the

creation of unnecessary bureaucracy and infrastructure to support a Government owned and operated scheme.

In Victoria, a Parliamentary Inquiry into Regional Fuel Pricing ultimately recommended against adopting a real time price reporting scheme. It found:

There is no evidence that mandatory fuel price reporting has reduced fuel prices in the jurisdictions where it operates. Complete price transparency across a market discourages fuel retailers from discounting because competitors can see their prices instantly and match them. Fuel discounters especially lose their competitive advantage and tend to be more conservative with their prices. The Committee found that mandatory reporting is unlikely to reduce fuel prices in regional Victoria due to the small number of competing service stations within reasonable travelling distance.

Ultimately, while AIP supports initiatives aimed at price transparency to assist consumer purchasing decisions, we do not see this as a direct role for Government. Rather, this section of the market is well serviced by third party providers and industry participants. It would be unfortunate if Government intervention lead to a stifling of innovation in this area, or worse still, drove these players out of the market.

However, should the South Australian Government wish to pursue a fuel price transparency scheme, it should only do so in a light touch manner that imposes the least cost on retail fuel operators. This is likely to be a system consistent with that introduced in NSW and Qld given current industry experience and the development of relevant internal reporting systems.

AIP notes that these systems provide for bulk uploads of prices for large operators with multiple sites using existing service providers. These systems also recognise the inherent challenges with meeting “real time reporting” and instead aim to have price changes reported to a price aggregator and then published within 30 minutes.

Further discussions with industry on key design and operational elements would be necessary should the Government choose to introduce such a system.

AIP would note that the Government, if it proceeds, should not promote such a system as being capable of delivering lower prices as there is no evidence to support such a claim. Indeed, it is possible that the scheme may have the effect of increasing prices particularly in regional areas where there would be new compliance costs that would need to be recovered without the necessary level of competitive tension in the market.