

Facts on Fuel: Frequently asked Questions

What is the price cycle and how does it work?

The price cycle represents a decline in the price of petrol which is then followed by steady or sharp increases. This cycle usually occurs on a weekly basis in most Australian capital cities.

According to the ACCC, there is no specific determining factor but rather a range of factors that influence the price cycle.

These include:

- the level of demand for petrol on different days of the week;
- the level and extent of competition in particular locations; and
- pricing arrangements between suppliers and retailers.

When is the cheapest day to fill up?

This cheapest day to fill up can vary over time and between states. It is best to ask your local motoring club for more information on the cheapest days to fill up.

What makes up the price for fuel motorists pay at the bowser?

There are a host of factors that make up the price of fuel at the bowser. Assuming a price for unleaded petrol at \$1.50 per litre, the actual cost of the fuel is around 80 cents/litre. This price is based on the Singapore benchmark price for petrol (MOPS95 Petrol) and is the market mostly closely linked to prices in Australia. Shipping adds around 1-2 cents per litre to the price. The Federal Government then imposes a tax of 38.143 cents per litre in the form of fuel excise. GST is included in the pump price. Overall, government charges amount to around 50 cents per litre. The wholesale and retail margins add around 12-20 cents a litre onto the final price.

How much profit do oil companies make from the cost of fuel?

An ACCC report published in 2010 indicated that the amount of the bowser price that motorists paid as profits to the petrol companies accounted for an average of 2.9 cents per litre.¹

¹ <http://www.accc.gov.au/content/index.phtml/itemId/962278>



What factors cause fuel prices to increase?

There are a range of factors that cause petrol prices to increase. Strong growth in demand generally results in the increase of the price of oil. This flows through to increases at the petrol pump. In 2011, conflicts in the Middle East and North Africa raised concerns in the market about affects to oil supply, which resulted in further price increases.

The strength of the Australian dollar in comparison to the US Dollar can also have an impact on petrol prices, as most global crude oil, petrol, diesel and LPG is traded in US dollar prices. A declining Australian dollar combined with an increasing price of oil can lead to significant price increases at the pump.

Many news reports in 2011 highlighted that the high Australian dollar 'shielded' motorists from even higher petrol prices. A stronger Australian dollar relative to other currencies means more oil can be purchased for the same amount of money. A rising Australian dollar can to some degree negate the increasing price of oil on international markets.

Why can there be so much difference between fuel prices from one station to another on the same day?

In most cases, oil companies are not directly responsible for the final price at individual petrol stations. According to the ACCC ² most service stations are run by franchisees or independent operators who have the final say on what price they choose to charge customers for fuel. This fact reinforces the importance of shopping around for the best deal on fuel. Purchasing fuel in areas where there are competing stations in a relatively close proximity to one another provides a better likelihood of obtaining the lowest prices for fuel on any given day.

² ACCC fuel report 2010, <http://www.accc.gov.au/content/index.phtml/itemId/961783> , p 40



Do petrol companies overcharge motorists?

In response to high petrol prices, the Federal Government commissioned the ACCC to report on the price of unleaded petrol in Australia.

Essentially, the ACCC concluded there was no conclusive evidence that oil companies were profiteering from motorists. They did however make a series of recommendations to improve competition and transparency in the petrol price market. Below are relevant extracts:

“Based on OECD studies, Australians have around the fourth lowest price of petrol in the world. The major reason for this is low taxes and excise duties. The actual price of petrol (excluding taxes) is pretty much the same throughout the world. Those who say the ACCC or the government must do something about petrol prices are simply ignoring the reality that petrol prices are set according to the international marketplace. What we can address are issues at the domestic level that can improve the competitive dynamics of the market and consumers’ knowledge”

In relation to supermarket discount fuel vouchers, the ACCC came to this conclusion:

“To date, the general emergence of supermarket shopper docket arrangements has not had an anticompetitive effect but has delivered discounts to the benefit of consumers and promoted competition from other retailers.”

“While the ACCC is satisfied that the supermarkets’ shopper docket arrangements have delivered a net benefit to date, the ACCC will continue to consider developments in the retail sector as they arise, including changes in the extent of the impact of shopper docket arrangements and their effect on competition.”

The full report can be found on the ACCC website.³

Whilst this report dismisses the assertion that there is widespread profiteering in the petrol industry, Australia’s motoring clubs will continue to advocate for members on this issue to ensure they are not taken advantage of by oil companies.

³<http://www.accc.gov.au/content/item.phtml?itemId=806216&nodeId=d5fc6a56fb589b453abc58f22e0b78bd&fn=Petrol>



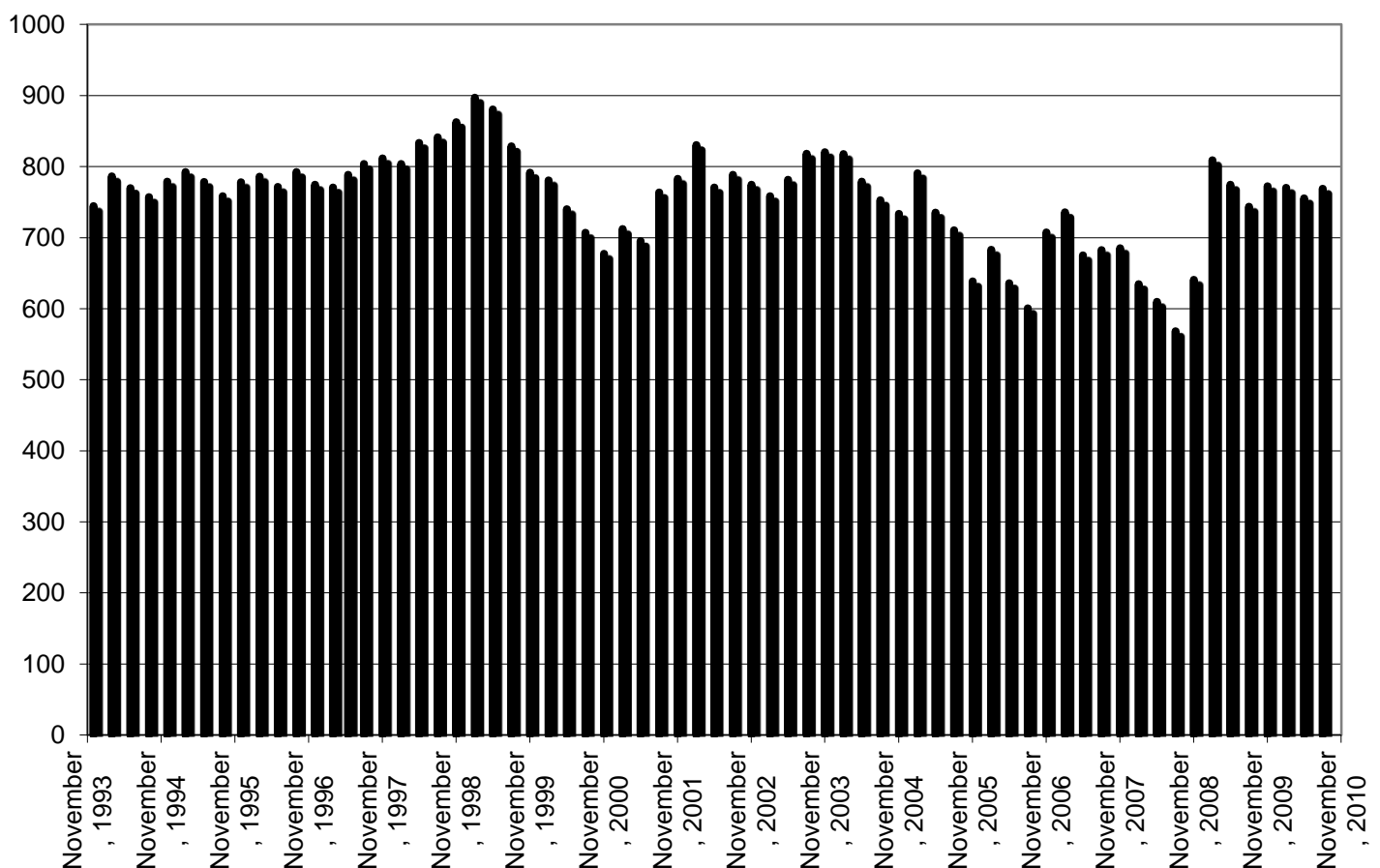
Have the days of 'cheap' petrol come to an end?

To engage in debate about whether or not petrol is still 'cheap' cannot be done in isolation of other factors, such as the average wage. In absolute figures, the price of petrol has increased significantly over the last 20 years. However the average wage in Australia has also increased significantly over the same period.

Therefore, the real question is not whether petrol is 'cheap', is it whether it is affordable. The graph below provides some answers to this question. The information on this graph is derived by obtaining the national average for unleaded petrol at the time specified and comparing to the average weekly wage (from the Australian Bureau of Statistics) for the same period. From this, the number of litres of petrol that can be bought on the average wage can be determined.

Although there was a decline in affordability during 2007 and 2008, affordability has remained fairly stable over the last 20 years.

Number of litres of petrol that can be bought on the average wage



Source: Wage information obtained from Australian Bureau of Statistics



How much does the average motorist spend of fuel?

According to AMP Chief Economist Shane Oliver, motorists currently spend on average around \$65 per week for fuel.⁴ Over the course of the year, this equates to \$3380 a year. Obviously the average cost will vary depending on the price of petrol.

What are some ways I can save money on fuel?

The simplest way for motorists to save money on fuel is to drive their vehicle in a more efficient manner. This is known as Eco Driving.

Eco-driving strategies include:

- Accelerating gradually as opposing to flooring the accelerator;
- Continual observation of traffic conditions ahead can improve breaking efficiency and prevent unnecessary stopping;
- Adequate spacing between cars in front can avoid constant breaking and accelerating;
- Switching off the car's engine if idling for more than 30 seconds;
- Ensuring tyres are at the correct pressure. Under-inflated create more drag on the road;
- Ensuring the car is not weighed down by non-essential bulky items;
- Reduce drag by removing roof racks, spot lights and antennas and other items outside the car when they are not in use;
- Ensuring the fuel cap is properly sealed to avoid vapour leaks;
- Regular servicing and using the correct oil;
- Forward planning trips can avoid making unnecessary journeys; and
- Opting to take alternative means of transport for travelling short distances

Following these principles can reduce fuel consumption.

How will the carbon tax affect the price of fuel?

Households, on-road business use of light vehicles and the agriculture, forestry and fishery industries will not face a carbon price on the fuel they use for transport.

For more information visit

<http://www.cleanenergyfuture.gov.au/transport-fuels/>

⁴ <http://www.smh.com.au/business/conflict-triggers-higher-fuel-prices-20110321-1c40j.html>



What is the situation regarding peak oil and what can do about it?

Fossil fuels are finite resources so it is certainly conceivable that the world cannot rely on conventional fuels to supply its energy needs forever. However, this does not imply that the last tank of petrol will be filled and the world will come in a grinding halt.

As the world looks towards alternative sources of energy, the main conundrum is that oil needs to be at a sufficiently high price to make research and development of alternate energy sources cost effective. However, the price of conventional oil cannot rise too sharply as it can contribute to major downturns in the economy, which consequently sees the price of oil plummet. Many alternative energy projects were postponed or abandoned altogether in the wake of oil prices declining significantly in 2009.

As oil becomes scarcer, the resulting increases in the price of oil will make alternative fuels more economically viable and a more attractive option to consumers. There is no need for governments to manipulate/increase prices of conventional fuels in order to encourage use of alternative fuels. Incentives for alternative fuels are better than punitive measures for current fuels.

Where can I get more information?

If you have a general question about fuel prices you contact the Australian Automobile Association by email at aaa@aaa.asn.au. We will attempt to respond to your inquiry as quickly as possible.

Alternatively you can visit the Australian Competition and Consumer Commission (ACCC) website at www.accc.gov.au

If you have a question regarding fuel prices in your region, you should contact your motoring club in your state. Details are provided below.

State	Motoring Club	Contact number
New South Wales/ Australian Capital Territory	NRMA	13 11 22
Victoria	RACV	13 72 28
Queensland	RACQ	13 19 05
South Australia	RAA	(08) 8202 4600
Western Australia	RAC	13 17 03
Tasmania	RACT	13 27 22
Northern Territory	AANT	(08) 8925 5901

