Petrol retailers should reduce their prices in line with falls i international petrol prices

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Petrol retailers should not use the current pandemic to further increase profits, which the latest ACCC petrol industry report shows have risen in recent years, and should pass on the full benefit of falling oil prices to motorists, the ACCC has said.

Weekly average international crude oil prices have decreased by around US$ 50 per barrel since the beginnin the year and this has largely flowed through to Australian wholesale petrol prices, which have decreased by around 50 cents per litre (cpl) in the same period.

Over the same period, seven-day rolling average petrol prices across the five largest cities (i.e. Sydney, Melbourne, Brisbane, Adelaide and Perth) have decreased by around 45 cpl. These cities have regular petrol p cycles, which makes it difficult to assess the exact flow through of falls in international crude oil and refined petrol prices in the short term.

“The drop in the crude oil price is good news for the Australian motorists. At this time the Australian economy needs all the assistance it can get, and lower world crude oil prices are one of the few positives from current world events,” ACCC Chair Rod Sims said.

“In the larger Australian capital cities, petrol retailers took too long to pass on the savings from the rapid drop international oil prices, and this did not reflect well on them.”

In Hobart, Canberra and Darwin as well as many regional locations, retail prices have been much slower to co down and the extent of the falls has varied widely.

Fuel prices are generally higher in regional Australia due to a number of factors, including lower population a demand, meaning there are fewer petrol stations, which often leads to less competition. There are also highe costs for transport and storage of fuel, and less convenience sales which can support the operation costs of p retailers when fuel prices are low.

Price changes in regional centres can lag up to six weeks behind changes in the larger capital cities, because t turnover of stock is generally lower in the country. The reduction in demand for petrol due to current travel restrictions may have further exacerbated the lag.

“We have previously found that the lack of vigorous and effective competition in some regional locations was major reason for higher prices in those locations,” Mr Sims said.

“Where there is competition, you tend to see lower prices. Giving your business to outlets that are pricing competitively sends a strong message to those that have high prices that they will lose your business. We recommend motorists compare prices on fuel price apps and websites, such as MotorMouth and the governm schemes in NSW, WA and the NT, which also provide information on retail prices in regional locations.”

“Especially at this difficult time, retailers must not take advantage of the situation to increase their profits, bu should pass on savings to motorists,” Mr Sims said.

“The ACCC’s role is to monitor the market closely, and we will continue to do this, particularly to keep the pressure on the petrol retailers at this time.”

New ACCC report shows retail profits increased over time

The latest ACCC petrol industry report reports on the revenues, costs and profits in the Australian petroleum industry up to June 2018. It includes financial results for the retail and wholesale sectors as well as for refinin and across the total downstream industry.

Retail sector net profits across all fuel products, convenience store and non-fuel services were $616 million in 2017-18, the last year covered by this report.

The sector generated a record high $333 million in net profits on petrol products – regular unleaded petrol (RULP), premium unleaded petrol (PULP) and ethanol blended petrol (EBP). This equates to a record net prof 3.0 cpl on petrol products, which was almost double the average in the period 2008-09 to 2013-14 of 1.6 cpl.

About 60 per cent of petrol net profits ($199 million) were made on premium fuels, which only accounted for about a third of petrol sales by volume.

“Much of the increase in net profits on petrol products was driven by sales of PULP, which has a significantly higher profit margin for retailers,” Mr Sims said.

Net profits on PULP 95 and PULP 98 were 5.8 cpl and 5.9 cpl respectively, while net profits on regular unleade were 1.5 cpl in 2017-18.

PULP 95 and PULP 98 have become more expensive relative to the retail price of RULP. The annual average pr differential between RULP and PULP 98, for instance, increased to 20.4 cpl in 2017-18, an increase of 3.9 cpl s 2009-10. Profits were also influenced by higher sales volumes of PULP (particularly PULP 98).

Retailers also earn substantial profits from convenience store sales. Convenience and other non-fuel sales contributed around 37 per cent of total retail sector net profits (or $226 million) in 2017-18, illustrating their importance to petrol retailers’ businesses as the profit margins on these products are significant.

“Petrol stations make most of their profits from convenience sales and premium fuel. The average net profits regular unleaded, at about 1.5 cpl are only a small part of the price motorists pay,” Mr Sims said.

The annual average retail price of RULP in the five largest cities in 2017-18 was 134.5 cpl.

“Drivers who have the option, can save money by resisting the temptation of convenience foods at petrol stat and using regular unleaded petrol, although motorists should follow their car manufacturers’ advice,” Mr Sim said.

Net profits in 2017-18 were stronger for refining and across the total downstream industry

The number of refineries halved from eight in 2002-03 to four in 2017-18, significantly rationalising operation The financial performance of the refining sector fluctuated over the same period.

Refining net profits however recovered following several years of net losses after the Global Financial Crisis. N profits reached $845 million in 2017-18, the highest since 2007-08. Overall profits for the total supply sector (which comprises refining, importing and transactions between refiners) were $1.19 billion in 2017-18.

Wholesale sector net profits were about $976 million in 2017-18 across all products and services. They have fluctuated over time but have been relatively consistent since 2008-09.

Net profits for the total downstream industry across all products and services were $2.78 billion (or 2.9 cpl), t highest recorded since 2007-08 and more than double the figure recorded for 2013-14 ($1.24 billion, or 1.4 cp

For petrol products, total industry net profits were $1.44 billion in 2017-18, or 4.2 cpl, the highest recorded by ACCC. They were around double the profits on petrol products across the industry in 2013-14 ($723 million, o cpl).

Notes to editors

On 16 December 2019, the Treasurer issued a new direction to the ACCC to monitor the prices, costs and profi relating to the supply of petroleum products in the petroleum industry in Australia. As part of this direction, t ACCC produces industry reports that focus on particular aspects of consumer interest in the fuel market in relation to prices, costs and profits.

This is the first industry report under the new direction. It reports on the revenues, costs and profits for the to downstream petroleum industry as well as for the following industry sectors: retail, wholesale, and total sup (which comprises refining, importing and transactions between refiners).

The focus of this report is to provide transparency around the financial performance and the profitability of t downstream petroleum industry. It presents results from analysis of this data.

The ACCC analysed the financial data of 11 companies:

- refiner–wholesalers – BP, Caltex, Mobil and Viva Energy
- independent wholesalers – Liberty, Puma Energy and United
- supermarket chains – Coles Express and Woolworths
- large independent retailers – 7-Eleven and On The Run.

The ACCC previously reported on financial results to the end of 2013-14.

This report includes data from 2002-03 to 2017-18 (the latest data analysed), but excludes results for 2014-15 2015-16, which was a period when the ACCC conducted other financial analysis of the industry as part of its regional market study reports.

All results in this report are in real terms in 2017-18 dollars.

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