



**CALTEX**

---

Caltex Australia

2 Market Street  
Sydney NSW 2000  
Tel: (02) 9250 5000

GPO Box 3916  
Sydney NSW 2001  
[www.caltex.com.au](http://www.caltex.com.au)

20 February 2015

Mr Russell Keith  
Clerk Assistant Committees  
Fuel Price Disclosure Bill Scrutiny Committee  
Legislative Assembly of the Northern Territory  
[la.committees@nt.gov.au](mailto:la.committees@nt.gov.au)

Dear Mr Keith

In preparation for the Committee hearing on 13 February 2015, Caltex updated and expanded on some of the information on fuel pricing contained in its earlier submissions.

It was intended that this material be tabled at the hearing but the opportunity to do so did not arise. However, I believe this material would assist the committee and be of value to public understanding of pricing issues.

I therefore would appreciate the opportunity to make this further submission.

Please do not hesitate to contact me ([ftopham@caltex.com.au](mailto:ftopham@caltex.com.au); 0411 406 379) should you wish to discuss any aspects of this submission.

Yours sincerely

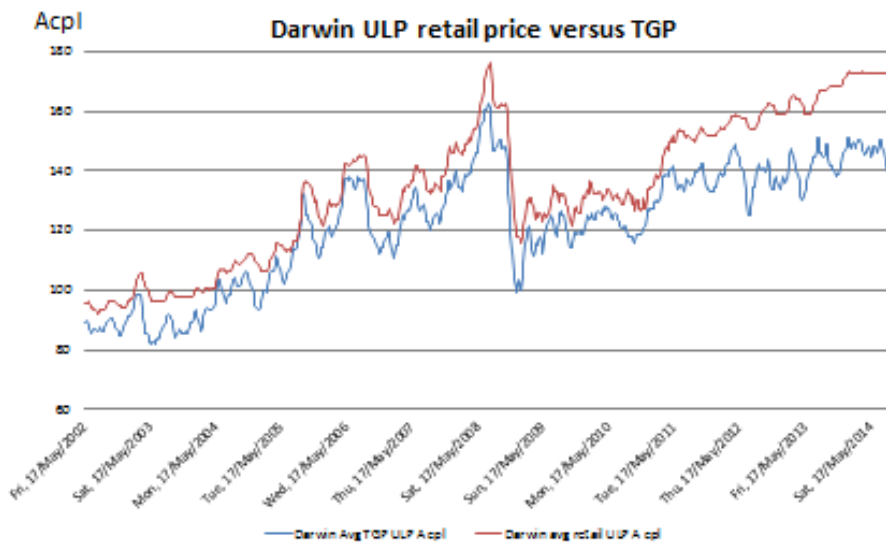
Frank Topham  
Head of Government Affairs

## Second supplementary Caltex submission to Fuel Price Disclosure Bill Scrutiny Committee

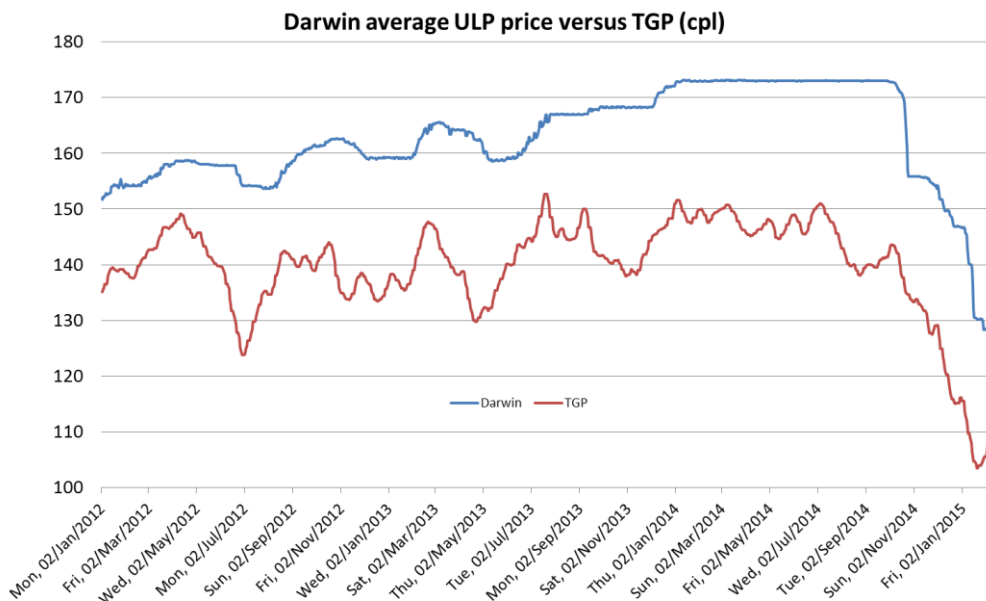
### 1. Petrol price update

Caltex's December 2014 submission to the inquiry contained the following chart, which showed no trend in the notional retail margin (average retail price for ULP minus average terminal gate price) from 2002 to first half 2011 but an upward trend after that time. By the time of the 7 October 2014 Fuel Summit, the notional margin had increased to about 30 cpl.

### **Caltex submission showed diverging retail price v TGP ...**

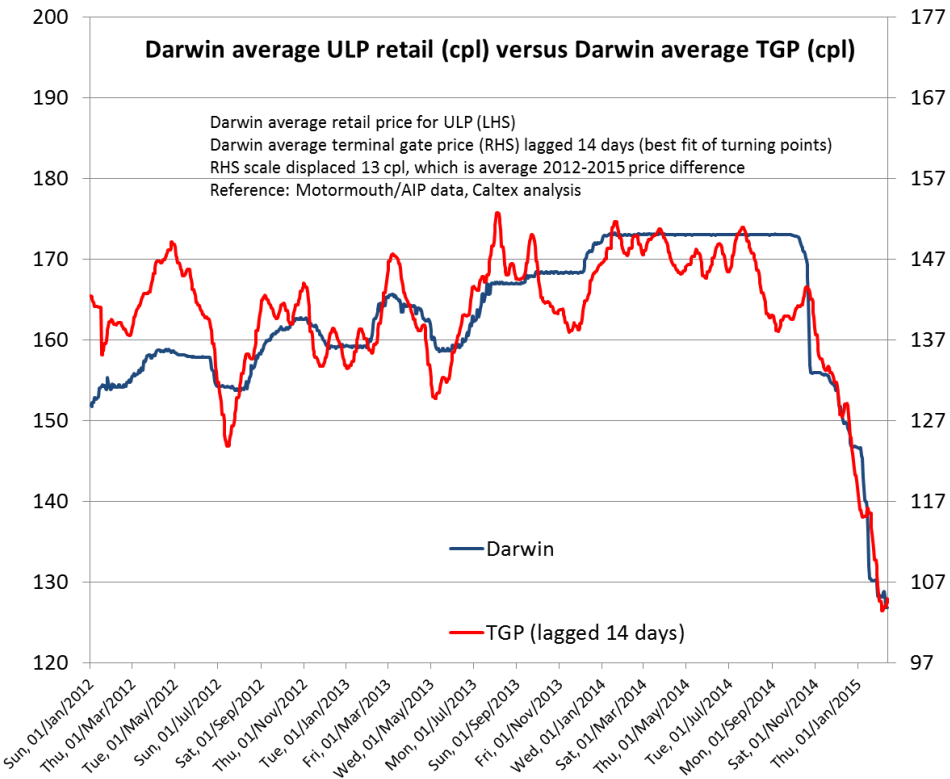


The following chart updates the above chart, for the period January 2012 to mid-February 2015. It can be seen that retail prices fell sharply in late October 2014, then tracked the falling TGP, with a lag. As of mid-February 2015, the notional retail margin was about 10 cpl.



The following chart examines the response of retail prices in Darwin to wholesale prices (TGPs). In order to examine the relationship, TGPs are lagged by 14 days (i.e. retail prices relative to TGPs two weeks earlier) to allow time for retail fuel stocks to be purchased and sold, and time for retailers to review their pricing decisions and make adjustments to prices and the basis of costs and local competition. In addition, retail prices and TGPs are charted on different axes; TGP relates to the right hand axis, which is shifted by 13 cpl (the average difference between retail price and TGP over the three year period).

It can be seen there is quite a close relationship between retail price and TGP. In particular, it can be seen that retail prices tracked TGPs downwards in recent months. However, retail prices are less volatile than TGPs, so there may be significant variations in notional retail margins over short time periods.



Caltex’s supplementary submission to the Committee observed that “short term variations in retail margins (both downward and upwards) most likely reflect a ‘stickiness’ in prices that is observed to varying extents in many other non-metropolitan markets”.

The ACCC has observed:

Furthermore, retail prices in some regional locations are ‘sticky’, i.e. they are less responsive—both upwards and downwards—to movements in international prices (ACCC, *Monitoring of the Australian petroleum industry December 2014*. p75).

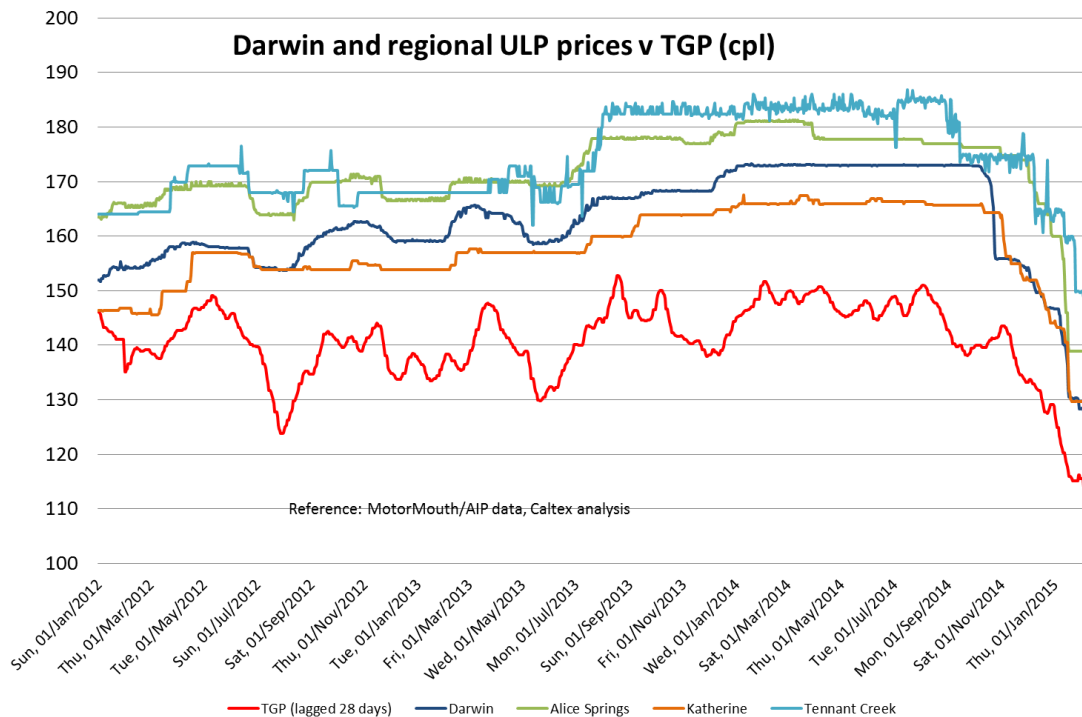
Why are prices in some markets “sticky”? The ACCC offers an explanation:

In small country towns with a small number of retail sites there may be little incentive to reduce prices. This is because competitors will also quickly reduce their prices and the net result is the same volume of petrol sold at each retail site but with a lower margin (ACCC, *Monitoring of the Australian petroleum industry December 2014*, p74).

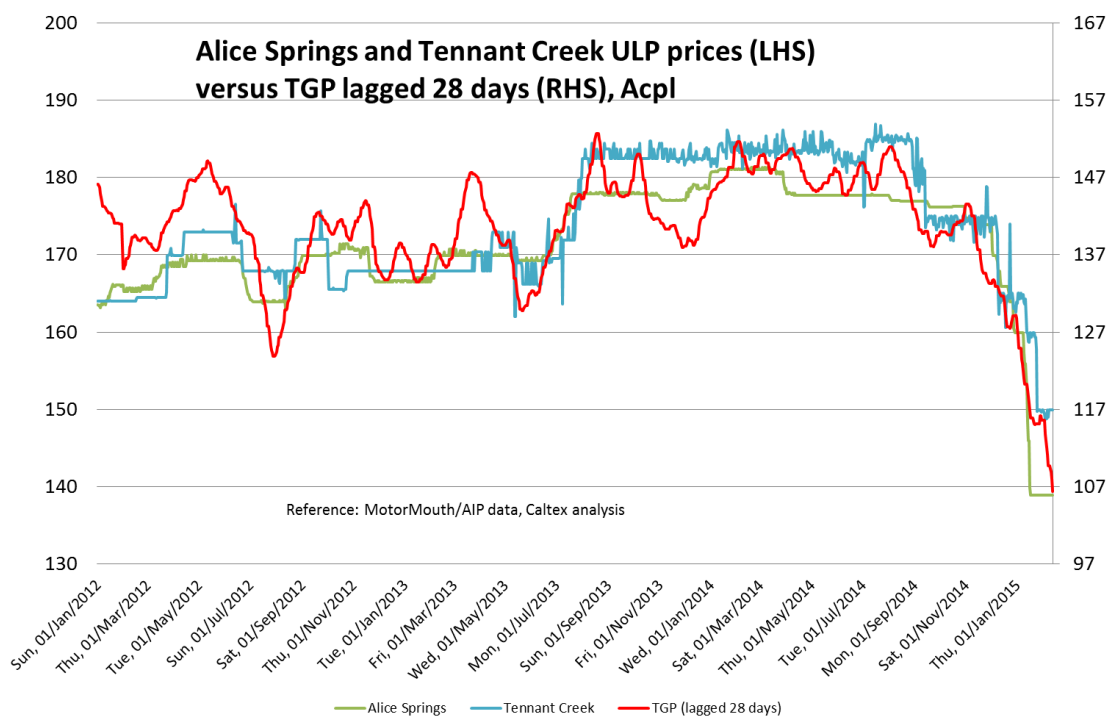
While the ACCC’s comments are in relation to “small country towns”, there is clearly a degree of stickiness in larger towns. “Stickiness” is generally not observed in the largest urban areas because some competitors can secure permanent increases in site volume by positioning themselves as “price discounters” or “budget sites”. Sufficient numbers of city motorists are willing to reward this pricing strategy by shifting their purchases from site to site. Such a discount strategy is more likely to succeed where there are high traffic flows, hence large potential markets, and a discount competitor’s action has

relatively less impact on other competitors' volumes. Where such a strategy has a significant volume impact on competitors – as would be the case in most country towns due to the small number of sites – those competitors are more likely to react quickly to cut prices and avoid the potential loss of volume.

The following chart examines the relationship between retail prices and TGP in regional areas of the Territory. The relationship is not immediately apparent for Alice Springs and Tennant Creek, so further analysis is required for these locations. (Katherine has similar price movements to Darwin.)



The following chart examines Alice Springs and Tennant Creek prices with TGP lagged 28 days. It can be seen there is good correlation of the retail price and TGP data series. In other words, prices in these locations track TGP, although with twice the lag experienced in Darwin.



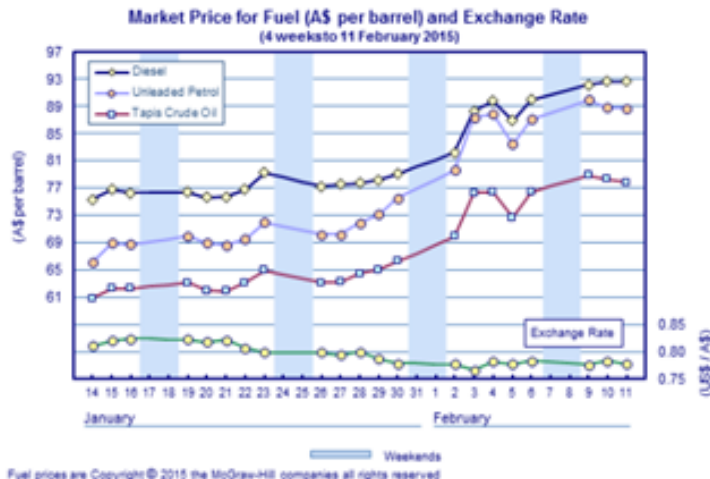
## 2. Price structure from public data

In Caltex's supplementary submission, we state

In Caltex's view, the price structure of petrol is best understood, particularly on a short term basis, by knowledge of the retail price, any retail discounts, freight costs, terminal gate prices, and import prices.

How can this be done in practice? The follow set of charts steps through the process, culminating in a table showing the structure of Darwin prices. This data is available to anyone with a computer.

## Singapore gasoline price (MOPS95) from AIP website



AIP chart shows  
 "unleaded petrol"  
 (MOPS95) price of  
 A\$89 per barrel  
 (159 litres) = 56  
 Acpl

## Petrol excise from ATO website

### Excise and excise equivalent goods

- Excise
- Excise licences
  - Moving excisable goods
- Excise rates**
- Reporting excise and paying duty
- Claiming excise refunds, drawbacks and remissions
- Keeping accurate excise records
- Excise equivalent goods
- Concessional spirits

#### Excise rates

Excise rates are expressed per:

- litre of alcohol for alcoholic beverages – with the volume of alcohol calculated by multiplying the actual volume of product by its alcoholic strength (for beer, the first 1.15% of alcohol content is free of excise duty)
- litre, kilolitre or kilogram of product for fuel and petroleum products including gaseous fuels
- stick for cigarettes and cigars where the weight per stick does not exceed 0.8 grams actual tobacco content and kilogram for all other tobacco products.

#### Rates

The rates, together with precise product definitions and descriptions, are set out in the Schedule to the *Excise Tariff Act 1921*.

**Find out more**

Access the latest duty rates on the [Excise tariff working pages](#) and associated [by-laws](#) on our legal database.

Petrol excise  
 rate from ATO  
 website = 38.9  
 Acpl

~	10.5	L	Gasoline (other than for use as fuel in aircraft)	\$0.389 per litre
A	10.6	L	Gasoline for use as fuel in aircraft	\$0.03556 per litre
~	10.7	L	Blends of gasoline and ethanol	The amount of duty worked out under section 6G (using \$0.389 per litre at step 3 at 6G)
~	10.10	L	Diesel (other than biodiesel)	\$0.389 per litre

## Terminal gate price from AIP website

### Terminal Gate Prices

Five weekdays to Thursday, 12 February 2015

#### Petrol (ULP, cents per litre, inclusive of GST)

Click on any location name to see more data for that area

	Friday 6 February 2015	Monday 9 February 2015	Tuesday 10 February 2015	Wednesday 11 February 2015	Thursday 12 February 2015
Sydney	109.6	110.9	113.0	114.1	114.9
Melbourne	109.0	110.3	112.4	113.5	114.3
Brisbane	109.1	110.3	112.4	113.5	114.3
Adelaide	108.8	110.0	112.1	113.2	114.0
Perth	109.5	110.6	112.5	113.6	114.4
Darwin	112.4	113.7	115.8	116.9	117.7
Hobart	115.2	116.3	118.4	119.3	119.9

All values are in cents per litre, and are inclusive of GST

AIP publishes average of daily TGPs published by fuel suppliers – or can look up individual supplier websites. Average TGP on 12 February = 117.7 cpl

## Retail price from AANT website (MotorMouth)

**Unleaded** fuel prices for the Northern Territory:

Suburb	Name	Address	Price
Berrimah	Castex Berrimah	Stuart Highway	126.9
Berrimah	Gull Pinelands	890 Stuart Highway	126.9
Berrimah	Puma 11 Mile	Stuart Highway	126.9
Berrimah	Puma Truck City	3921 Berrimah Road	126.9
Casuarina	BP Casuarina Cityway	Trower Road	126.9
Casuarina	Castex/Woolworths Casuarina, NT	Lot 9288 Trower Road	126.9
Coolalinga	Castex/Woolworths Coolalinga	20 Henning Road	126.9
Darwin	United Darwin	Smith Street	126.7
Darwin	BP Darwin City	89 Smith Street	126.9

Retail petrol prices (MotorMouth data) from AANT website

These pricing components can be combined to show the complete cost structure for ULP on 12 February 2015. A very similar process can be followed for retail diesel. Note that this price structure is indicative as it does not allow for lags in the response of retail prices to TGP, or TGP to the Singapore price.

## Petrol price structure from public data

Price component	Price (Acpl)	Note
Singapore price	56	From AIP website chart
Int'l freight and charges, terminal cost and wholesale margin	12	By difference from TGP and cost/tax components
Excise	39	From ATO schedule
10% GST (included in TGP)	11	
Terminal gate price	118	AIP average of supplier TGPs
Retail margin, inland freight and GST on margin	11	By difference
Retail price	127	Typical price per AANT
NOTE: This analysis is indicative and does not take into account lags between pricing components		For example, TGP is based on a 7 day rolling average of Singapore prices and retail prices lag TGP changes