

UPDATED WITH
ACCC INQUIRY INTO
UNLEADED PETROL PRICES

Caltex Talkingpoint

PETROL PRICING MYTHBUSTERS

MYTH 1

Petrol prices are quick to rise when world prices increase but slow to fall

FACT

Pump prices closely follow the price of petrol from Singapore refineries (not the crude oil price) with a lag of about one week. Marketing margins typically fall for a period when Singapore prices increase sharply. However, marketing margins increase for a period when Singapore prices fall sharply.

The ACCC says...

There is no evidence of any systematic deviation of retail prices from the relevant international benchmark prices ... The effect of price lags can work in both directions with consumers benefiting when international prices are rising as domestic price increases are delayed.

MYTH 2

Oil companies increase prices for public holidays

FACT

Petrol prices don't jump because of public holidays, although this claim is made almost every holiday period. Normal weekly price cycles before holidays are often incorrectly claimed to be holiday price increases.

The ACCC says...

There is little evidence to support the media claim that cyclical petrol price increases before public holidays are always higher than the cyclical price increases that occur at non-public holiday times.

MYTH 3

Petrol prices all increase at the same time

FACT

Petrol prices don't all increase at the same time and there is no collusion – but competitors watch each other closely and prices can change quickly after a week or more of discounting.

The ACCC says...

Retailers can quickly match or undercut prices charged by other competitors, leading to highly uniform pricing across retailers.

MYTH 4

Oil companies manipulate weekly price cycles to increase profits

FACT

Price cycles are the result of competition and provide opportunities to buy petrol at a discount, sometimes below cost. 55% of motorists buy petrol in the cheaper half of the week. About 60% of motorists take price into account when buying petrol. The Australian Competition and Consumer Commission web site has information on when to buy.

The ACCC says...

The existence of price cycles does not provide any evidence of a lack of retail competition.

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MYTH 5

Supermarkets dominate the petrol industry

FACT

The petrol industry is not concentrated. The two supermarkets have a 44% share of the market. Four other major brands including Caltex have 49% and there are several more large chains. (Woolworths controls the board price at sites co-branded Caltex Woolworths.)

The ACCC says...
The shares of retail sales volume by brand have become less concentrated.
The general emergence of supermarket shopper docket arrangements has not had an anti-competitive effect.

MYTH 6

Independent service stations are needed to ensure lower prices

FACT

Independents have a role in the market but supermarkets operate the largest number of service stations that are aggressive discounters.

The ACCC says...
There is no evidence supporting the view that the independent sector as a whole is in danger.

MYTH 7

Country prices are higher than the city because of freight

FACT

The most important factor creating differences between country towns (and between city and country) is typically local competition, not freight. Sales volumes may also be lower, meaning higher costs per litre. Oil companies have little influence over country prices as most sites with major brands are run by independents.

The ACCC says...
Price differentials in seemingly "like" country towns may be explained by differing local competitive factors, including different population sizes, level of competition and the presence of discount retailers.

MYTH 8

Price manipulation by greedy oil companies is the reason for high petrol prices

FACT

On average over the last 10 years, the average of oil company profits on all fuels was only 1.0 cents per litre. Taxes and costs (mainly crude oil) make up most of the price of petrol. Caltex does not produce any crude oil but must buy it at world prices. Caltex's financial results show an average profit across all fuels of only 2.2 cents per litre.

The ACCC says...
The ACCC is satisfied that the import parity pricing policy provides refiners with reasonable rates of return from refining operations ... Wholesale margins are narrow ... In general, retail margins are relatively small.

MYTH 9

Nobody knows how prices are set and the ACCC needs to investigate

FACT

Petrol prices are the most transparent of all market prices. There have been many inquiries and investigations by the ACCC and governments providing detailed information on pricing and showing the market is competitive. See Caltex submission to the 2007 ACCC inquiry (www.caltex.com.au/pricing.asp)

The ACCC says...
The 2007 inquiry has been a major inquiry ... The report resulting from this work is necessarily long, complex and detailed.

Further information

www.caltex.com.au/pricing.asp
www.aip.com.au
www.accc.gov.au