

## Petrol chief plugs fairer pump prices

Australia's new petrol commissioner believes he can shave cents off the petrol price Australia-wide if there is a national roll-out of the FuelWatch scheme. "I've seen the merits of WA FuelWatch system and the benefits of market transparency," Mr. Walker said.

FuelWatch requires WA's service stations, by law, to provide advance notice of their next day's fuel prices. Petrol retailers are required by 2pm to give notice of the prices that will apply for 24 hours from 6am the next day. The system locks service stations into selling petrol at that price, and motorists who register with FuelWatch can receive text messages highlighting where the cheapest petrol can be found.

FuelWatch covers more than 600 retailers in WA and is estimated to have reduced petrol costs in WA by two cents a litre. According to an independent survey completed in 2007, 72 % of private motorists in WA use FuelWatch and save:

- On average \$2.50 a week
- Collectively \$1.6 million a week
- Collectively \$85 million a year

"What I want to do is get the confusion out of the market place and get a fair go for motorists," Mr. Walker said.

### Questions

1. Identify the sources of market failure that might have created the need for the Australian Government to appoint a 'petrol commissioner'.
2. Describe how FuelWatch makes the petrol market more efficient?
3. If FuelWatch has indeed reduced the price of petrol for WA motorists, what has happened to the levels of consumer and producer surplus in the WA petrol market? Draw a diagram to illustrate this change.

### Petrol Prices (adapted from [www.fuelwatch.wa.gov.au](http://www.fuelwatch.wa.gov.au))

Western Australia's domestic petrol prices are affected by many factors including overall world supply and demand for crude oil and petrol, freight rates and competition at world, regional and domestic market levels. Although there is a strong correlation between a change in the price of crude oil and the price of fuel it is not the only factor.

### Singapore Benchmark

Central to the price of petrol in Western Australian is the price that petrol is selling for overseas. The price of petrol in Australia is kept in line with international petrol prices to ensure that local refiners will not sell offshore to obtain higher prices. Under Australia's import parity policy Singapore is used as the price benchmark for most fuel because of its proximity and because it is the largest refining center in the region. The LPG benchmark is set in Saudi Arabia. The Singapore

The screenshot shows the FuelWatch website interface. At the top, there is a navigation bar with links for 'About FuelWatch', 'My FuelWatch', 'Price Search', 'FuelWatch News', 'Fuel Information', and 'For Industry'. A 'My FuelWatch Login' section includes fields for 'E-mail Address' and 'Password' with a 'Go' button. Below the navigation bar, a 'Welcome to FuelWatch' message is displayed, along with a 'News' section containing links for 'Bio-diesel and vehicle warranties' and 'LPG Conversions'. A table titled 'Best Prices available from 6am today Monday 31 March 2008' is shown, with columns for 'Product', 'North of River', 'South of River', 'EastHills', and 'Metro Average'. The table lists prices for ULP, PULP, Diesel, LPG, 98 RON, and B20. Below the table, there is a disclaimer and a note about the service being free.

Product	North of River	South of River	EastHills	Metro Average
ULP	134.2	133.8	135.5	137.2
PULP	140.2	139.8	141.5	143.8
Diesel	154.0	150.9	153.5	159.7
LPG	59.9	59.9	63.9	65.9
98 RON	144.8	144.9	145.5	148.4
B20	154.9	154.9	153.9	156.0

benchmark can be impacted by supply and demand issues, such as the general availability of petrol on the world market.

### Crude Oil

Crude oil is the raw material for petrol. Crude oil has to be refined to produce petrol. Singapore refineries produce petrol mainly from Malaysian Tapis Crude. So the price of Malaysian Tapis Crude influences the price of Singaporean refined petrol which in turn influences the price of petrol in Australia.

The price of Malaysian Tapis Crude is affected by the supply of and demand for crude oil on the world market. For example, the weather can influence the price of crude oil. Traditionally there is a high demand for oil in the Northern Hemisphere's winter for heating purposes. Market decisions by oil producers to cut or increase oil output can impact on the supply of oil and hence the price of crude oil. The Organization of Petroleum Exporting Countries (OPEC) is the largest international world oil producing cartel and the world fuel industry hangs on its decisions to cut or increase oil output.

### The Australian Dollar

The Australian dollar also impacts the price of fuel because the United States dollar is used for most transactions. When the Australian dollar is valued at a high rate against the American currency, this positively impacts the price of petrol leading to lower prices. When the Australian dollar is valued at a low rate against the American currency, there is a negative impact on the price of petrol leading to higher prices.

### The Price Cycle

The price cycle describes the sudden peak and then gradual decrease of retail fuel prices on the domestic market that occur in all Australian capital cities. The price cycle for unleaded petrol in metropolitan Perth varies in length but is typically lasts about eight days. Prices from the top to the bottom of the price cycle can vary by as much as 13 cents a litre.

The price cycle bottom and top range as well as the number of days it operates for are significantly influenced by the Singapore benchmark.



### Other Influences

Petrol prices are also impacted by freight and wharfage costs, Commonwealth Government taxes (GST and Excise), insurance and wholesale and retail margins.

### Questions

1. Identify two demand and two supply factors that impact on the world price of crude oil. Draw demand and supply diagrams to show the impact on the price of crude oil in each case.
2. Why does Australia use a policy of import parity pricing (keeping the price of Australian petrol in line with international petrol prices)?
3. Why does a rise in the value of the Australian dollar relative to the US dollar tend to reduce petrol prices in Australia? Draw a diagram to show this.
4. What do you think might be the cause of the petrol price cycle in the domestic petrol market?
5. Is this price cycle a sign of market efficiency or inefficiency?
6. Why does the market need to be policed by a petrol commissioner?