Margin for profit in petrol prices no error, says economist

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A University of Western Sydney economist says there is no doubt who benefits from any increase in petrol prices - especially when it comes to long weekends.

Dr Girijasankar Mallik, from the UWS School of Economics and Finance, has been studying oil industry pricing practices since 2002.

He notes that, as a general rule, retail petrol prices in major cities Sydney, Melbourne, Brisbane and Adelaide metropolitan areas in Australia follow a weekly cycle, rising faster during Wednesday and Thursdays and falling very slowly from Friday to Tuesday.

While anti-competitive practices such as price fixing have been raised as one of the possible causes outlined by the Australian Competition and Consumer Commission (ACCC), it is difficult to prove conclusively, Dr Mallik says. However, weekly increases in prices can be explained.

"Consumers could benefit from the weekly cycles by purchasing petrol during Mondays and Tuesdays; but this may not be possible for low-income groups. They can only afford to purchase petrol when they receive their pay cheques. Hence they must pay the higher petrol price."

"In general, economic theory states that revenue increases with the increase in price when demand is inelastic, i.e. when the product is a necessity. Therefore it is possible that the producers are better off from weekly cycles, not the consumers."

In reviewing petrol price data from Fuel Trac, over 2005-2006, Dr Mallik found that prices during the crucial Wednesday - Thursday period prior to a long weekend increased by as much as 7.84 per cent for Sydney metro - almost 1 per cent higher than the average weekly increase that usually occurs on other weeks during the same period.

Based on average price rises in capital cities and metropolitan areas during weekly peak periods, that means petrol prices increased anywhere from 1 cent to $1.30 per litre during long weekends.

Dr Mallik says four elements contribute to fluctuations in petrol prices. They are: the Singapore refineries petrol prices in US dollars, exchange rates, federal government excise GST and state government subsidies, and margins within Australia.

"Data shows that Singapore refineries prices, exchange rates, federal government excise and state government subsidies do not move in cycles -
moreover, their fluctuations are random. That leaves margins," he says.

Source: University of Western Sydney

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