Australia: No petrol price reprieve for motorists this year

January 16 2014, by Stephen King

Australia's cost of living is among the highest in the world, despite our low inflation rate. In this series we explore what consumers can expect from the big ticket items - petrol, power and groceries - in the year ahead.

Fuel price spikes in January make the news every year, but in reality the past few years have seen fairly stable petrol prices in Australia. This is unlikely to continue in 2014.

Long-term trends suggest energy prices will keep hitting the "hip pocket nerve" over the next few years, but what goes into the price of a litre of petrol and how will these contributors change in 2014?

The Australian Competition and Consumer Commission provides a breakdown in its annual monitoring report.

Firstly, there is the cost of the refined petrol. Australia is a petrol importer and it is the international price of refined petrol from Singapore that sets the Australian price. The international price makes up about 53 per cent of the pump price.

Secondly, there is tax. Excise and GST make up about 36 per cent of the retail petrol price. That might sound large, but Australia's petrol taxes are among the lowest in the developed world. Out of the OECD countries, only Canada, the US and Mexico had lower prices (and lower taxes) in June 2013.

Finally, there is the cost of storing, delivering and retailing the petrol in Australia, which makes up the final 11 per cent.

Taxes and the Australian costs are unlikely to change greatly in 2014 – although that could change if the federal government delivers a "horror budget" in May.

What will drive higher prices

However, a fall in the Australian dollar exchange rate has recently pushed up the international component of petrol prices.

Refined petrol on the world market is priced in US dollars. That means if the Australian dollar drops, the price of imported petrol (and all other imports) rises. We can thank the strength of the Australian dollar since 2009 for our stable petrol prices, even though international petrol prices, in US dollars, have been rising.

With ongoing growth in China, and as the European and US economies continue to recover, world petrol prices will continue to rise. Combined with a falling Australian dollar exchange rate, this will feed into higher Australian pump prices in 2014.

The other hip-pocket factor for petrol in 2014 will be the reduction in discounts through supermarkets. On 6 December 2013, the ACCC accepted undertakings from both Coles and Woolworths that will limit supermarket "shopper docket" discounts to no more than four cents per litre. Given these discounts sometimes reached 30 cents or more per litre, the undertakings will have a significant impact on some consumers. Indeed, the ACCC has been criticised for managing a reduction in competition by accepting the undertakings.

As I have discussed before, the competition implications of shopper dockets are complex. But that is cold comfort to motorists who can no longer access big discounts.

Layered on top of the petrol price is the price cycle. Depending on where you are located, petrol prices have a weekly, fortnightly or even three-weekly cycle. Or prices may not cycle at all! There are many explanations for the petrol price cycles. Most are contradictory and possibly all of them are wrong.

In its 2007 inquiry into petrol prices, the ACCC concluded the "causes of price cycles are not clear". This understatement still holds true. If you can buy at the bottom of the cycle, well done.

Global factors and the gas debate

Longer term, so-called unconventional gas and oil is starting to revolutionise energy markets. The USA, traditionally the world's largest oil importer, is looking at the potential for oil exports due to increased domestic production.

Gas discoveries in the USA, Australia and elsewhere will put downwards pressure on world energy prices, once liquefaction and export terminals are built. Indeed, the effect of shale gas in the US has already echoed through world coal prices. While the gas cannot yet be exported, domestic electricity producers in the US have switched from coal to gas. That has led to increased coal exports from the US, pushing down world coal prices.

This is both good and bad for Australian consumers. Good, because increased oil production will help dampen petrol price rises. Bad, because Australian consumers have benefitted from low gas prices. When export terminals are completed, the Australian price of gas will rise to the Asian price. That is why large industrial gas users have been trying to get the government to subsidise them through a "gas reservation scheme".

The success of unconventional oil and gas means energy prices are not going to drop in the long term. These new sources of oil and gas are costly to exploit. Investors are only putting their money into these resources because they think energy prices will remain high. This means that the market has made a mockery of so-called peak oil. There is lots of new oil and gas. But it also means that, even with new oil and gas finds, growth in China, India and Africa is expected to keep energy prices high for at least the next decade.

More information: Read the report "Monitoring of the Australian petroleum industry 2013" here: www.accc.gov.au/publications/m … ndustry-2013-summary

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