

# Petrol's painful formula

**T**RYING to understand why the petrol price fluctuates isn't rocket science. It's much more complicated than that.

Lord Browne, chief executive of BP, said of the latest rises: "We don't fully understand why crude oil prices are going up at this rate."

While it might be difficult to fully explain the record levels, some converging factors can be attributed to our current "oil shock", as Treasurer Peter Costello puts it.

Economists put it at the equivalent cost to families of a 0.25 per cent interest rate rise, one argument against the Reserve Bank raising rates today.

Since January, the international price of crude oil has risen more than 18 per cent to about \$US72 a barrel.

Since 2003, the price has risen three-fold. The price we pay is dependent on the Singapore wholesale price of the refined oil, so our dollar's exchange rate is another important factor determining petrol price.

Add to this the cost of delivering fuel to our refineries and you get the Terminal Gate Price. The fuel is then bought by the fuel retailer and a small margin is added to give the retailer a profit.

Government taxes are added to give the final bowser price. Tax consists of an excise and the GST. The excise is a flat 37.7 cents per litre.

It is ironic that the Howard Government is under fire for the current price spike in spite of lowering fuel taxes in 2001.

First, it took 1.5 cents off the excise. It also froze the excise by abolishing its twice yearly rise with the CPI.

So, at a bowser price of \$1.35 a litre, 83 cents buys the fuel, 37.7 cents goes to the excise and 13.5 cents GST.

This sounds a lot of tax,

## Elliot Fishman

but Australia is one of the lowest fuel taxing countries in the OECD.

The British price is \$2.30 a litre. Two-thirds of this is tax. Consider Turkish motorists, where it costs more than \$3.

Unlike milk and bread, the price of petrol can fluctuate rapidly and there are no simple answers.

Local and international factors combine to cause the daily change.

Local factors play a less important role than world crude prices and the exchange rate, but still have an influence.

The ACCC confirmed petrol prices were higher late in the working week and lower on Monday.

It believes local supply and patterns based on higher weekend demand are the reason for this weekly price cycle.

**I**NDPENDENT suppliers buy their petrol at the Terminal Gate Price, while franchisee petrol stations of the big oil companies buy about 9 cents above this price.

The weekly discount cycle brings franchisees down to the price of the independents. Once it is decided prices are too low for demand, a group of franchisees will temporarily withdraw from discounting. Who decides? Unfortunately, that's a little ambiguous.

Other retailers follow suit and prices rise across the board. This partly explains how petrol prices can jump from \$1.30 to \$1.45 overnight.

Local demand however plays a much smaller role than world demand. Globally, we consume four barrels of oil for every one barrel found.

With the rise of China and India, demand has skyrocketed. When asked why petrol



**Topping up:** it may never be cheap again.

prices are so high, US chairman of the Federal Reserve, Ben Bernanke, said: "There is little spare capacity".

This highlights the growing gap between supply and demand, where commodity traders step in.

More than ever, speculators take advantage of tight supplies and strong demand.

James Howard Kunstler, author of *The Long Emergency*, believes two important factors help explain the record prices.

First, as high quality, sweet light oil becomes harder to extract, it is being replaced by heavier, sour crude. This is more expensive to process and more difficult to refine.

Second, oil exporting countries are consuming more oil domestically. This means less for export, driving up prices.

The global price of crude oil is subject to geopolitical concerns. Unrest in Nigeria has led to a decrease in output, as well as worry over that nation's future reliability as a producer.

Mounting concern that the US is planning an intervention in Iran has been a major reason for the latest price spike.

Iran supplies 5 per cent of global oil, about four million barrels a day. Matthew Simmons, a former energy adviser to US President George Bush, points out that Iran holds a strategic position over the Strait of Hormuz.

Some 85 per cent of tankers

carrying Middle Eastern oil must pass through this narrow sea passage. The friction between the US and Venezuela has also contributed to the rise.

Venezuela also accounts for around 5 per cent of world supply, as well as claiming the globe's largest supply of crude. It is becoming increasingly clear that the prognosis is for a continual rise in petrol price.

Given this upward trend, what can be done to ease the pain at the pump? The RACV's David Cumming argues that the Federal Government must cut excise by 10 to 12 cents a litre.

**B**UT for every one cent reduction in the excise, the Government reduces its revenue by \$300 million. This means less money for health, education and other government services.

It also delays facing the crisis that is inevitably coming.

As oil demand increases and supplies decrease, the future will bring super-high oil prices, so a cut in fuel tax will deliver diminishing benefit.

By reducing the excise, the Government would send the message that heavy fuel consumption can continue.

Unfortunately, that is simply not the case.

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