

SSA EDITORIAL November,2011.

Wild fluctuations in world markets over the past few months have had an impact on the Australian service station industry, but to a lesser extent than most people expected. Whilst the task of predicting future price movements is never easy, there are two major factors that have the greatest influence on petrol prices. The first and most important is the movement of prices for gasoline and diesel in the Singapore exchange market. The industry uses this information as the basis for trade in the Asia Pacific region and therefore impacts directly on the wholesale market here in Australia.

Many market watchers question the validity of using Singapore as the basis for Australia. International market mechanisms such as Singapore, Rotterdam and New York play a vital role in the orderly trade of billions of dollars worth of oil and energy transactions everyday world wide. It enables buyers and sellers to trade quickly and efficiently and at very low transaction costs. All consumers benefit from this. However, in the case of Australia, we now import roughly 35% of our refined product needs and the vast majority of it is sourced from the Singapore market. Therefore, a significant number of Australian motorists have no choice but to pay world market prices for their gasoline and diesel purchases. The fact that all sales use this same basis is only fair and equitable – no other mechanism would work. If Australian consumers are not prepared to pay world prices, then they will go without – simple as that. Australian motorists are competing directly for their fuel purchases with motorists from south East Asia, Japan, and China etc.

The other factor is the Aussie dollar exchange rate. The US\$ is still the universal trading currency and so we buy our products in US currency. It is a function of world markets at the moment (and has been for some time) that the value of the Aussie dollar is linked to the world's outlook for positive growth. If the outlook is good, then the Aussie dollar is strong. The reverse is also true. However, world energy prices go the same way. If the outlook is good, energy prices rise etc.

What does that mean for the Australian market? Put simply, it means that the two factors roughly cancel each other out, and that is exactly what we have seen in the last few months - not a lot of movement, but a gradual long term increase in line with long term predictions of gradually increasing prices.

Too many casual observers only focus on one of these factors and cry out that "petrol prices are too high!" The fact is that petrol prices closely follow the two important factors outlined above and always have. Furthermore, the weekly discount cycle which has been in place for over twenty years, has a far bigger influence on daily fluctuations than world factors. Again, many commentators conveniently forget this when they make their outbursts.

Commentary of this type then raises the next question, namely; how should the public be kept informed about important issues such as petrol prices? We all rely on the media, but, can the media be relied upon? After all, most media outlets are owned by public companies whose primary responsibility is to

reward their shareholders by way of profit. In these instances, the collection and distribution of information is just the means of making the profit. How important is it for these organisations to make sure that the information they disseminate is not only accurate but that also, the likely interpretation of that information by its “customers” is also a true and accurate assessment. Or are they more interested in sensationalism or sentimentality? After all, both these latter two attributes are known to sell newspapers.

Most Australian media outlets, when reporting on finance and market movements, nearly always quote West Texas Intermediate (WTI) price movements as the basis for the world’s crude oil markets and somehow suggest that the information has some bearing on the Australian market. In fact, nothing could be further from the truth. Through ignorance and /or laziness, these media outlets are not bothering to check on the relevance of this information. They blindly take information fed to them from some news desk service they subscribe to in New York and leave it at that.

In actual fact, WTI has absolutely no relevance to the Australian market. It only has relevance in North America which is where all the oil is produced and consumed. Australia has never imported any WTI crude so why do the media outlets keep quoting it? The market for crude in Australia has in recent years been satisfied by South East Asian crude (mostly) and the Singapore market has used Tapis crude oil as the indicative marker crude. However and more recently, the industry has been moving away from Tapis and is starting to base its trading more on dated Brent crude oil from the North Sea. It definitely is not using WTI.

This information is widely available. The Australian Institute of Petroleum (AIP) has an excellent website that contains a wealth of information and is updated daily. It goes to great lengths to explain the bases of crude and product pricing and what they are used for.

Whilst the wholesale market in Australia for gasoline and diesel is influenced by many factors such as crude price movements, shipping rates, exchange rate movements etc, the most consistent basis is the Singapore market for these refined products. Refined product prices do not automatically follow crude oil prices and are influenced by other factors such changes in the supply/demand balance, refinery shutdowns, overseas government directives etc. It is not unusual for the Singapore price of gasoline for example to be falling while crude prices are going the other way, and vice versa.

And yet the media fails to detect these occurrences and goes on blindly quoting daily data from the New York stock exchange. Industry commentators such as the Service Station Association are then left with the unenviable task of trying to explain why petrol prices are not moving in line with that morning’s news broadcast. No wonder our industry has a credibility problem when the public are fed misinformation by the media.

The public deserves better from its media. After all, petrol prices and the outlook generally for energy security are too important for us to get it wrong.

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