



Oil Supply and Petrol Prices

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This is the executive summary of a briefing paper by Stewart Smith, published by the Research Service of the Library of the Parliament of NSW. The full paper can be found [here](#) (pdf).

The transport sector consumes 41 percent of final energy consumption in Australia, with the demand for transport energy growing at about 2.4 percent per year. Road vehicles moving passengers and freight account for 75 percent of transport fuel use. The Australian and international economy are deeply reliant on the supply of abundant petroleum resources at reasonable prices. However, significant challenges are confronting the petroleum and transport industry, both domestically and internationally. The first of these is tight supplies of crude oil, coupled with a growing market base of emerging economies. The second is the necessity to reduce greenhouse gas emissions to prevent dangerous climate change. This paper focuses on the former issue, and explores the factors contributing to the price of petrol in Australia.

The proven world oil reserves at the end of 2007 were 1,237.9 thousand million barrels, enough to supply the world at 2007 levels of consumption for 41.6 years. World distribution of proven oil reserves is heavily weighted to the Middle East (61%). The Asia Pacific region has the least, with just 3.3% of total proven reserves. At the end of 2007, Australia had proven reserves of 4.2 thousand million barrels of oil, which at present rates of production would last 20.3 years.

Total world oil consumption in 2007 was 85.22 million barrels/day, some 1.1% greater than 2006. The USA was the largest single consumer of oil (23.9% of world total), with China the second largest (9.3% of world total). OECD countries are predicted to account for the bulk of global oil demand in the medium term, yet several key non-OECD countries, particularly in Asia and the Middle East, are catching up. Non-OECD demand is likely to be greater than OECD demand by 2015.

Crude oil prices have increased dramatically in recent years. The price of West Texas Intermediate, a crude oil benchmark, remained about US\$20 per barrel over much of the 1990s. Prices began to climb in 2005, with oil futures reaching a peak of US\$147.27 on July 11, 2008. Since then, prices have dropped, and are around US\$95 per barrel.

The causes of the recent spike in world oil prices have been attributed to fundamental supply and demand issues. Continued demand growth from China and India, coupled with supply constraints, has led to lower spare capacity of oil supplies. This puts upward pressure on prices and leaves world oil markets vulnerable to supply disruptions. Whilst there may be some easing of the oil price in the short term, unless there is considerable investment in the oil industry there are fears that it is likely to suffer from a supply 'crunch' by 2013. This will again lead to a spike in the oil price.

Petrol prices in Australia have recently been investigated by the ACCC. It concluded that the unleaded petrol industry is competitive, and that there is no evidence of price fixing or collusion between the major participants in the industry. However, the ACCC also found the petrol refining industry to be highly concentrated, with some 98% of Australia's total fuel requirements largely controlled by the four refiner – marketers (Shell, Mobil, Caltex and BP).

In regards to the retail price of petrol, the ACCC noted a significant degree of price competition. However, it found an imbalance in pricing transparency between buyers and sellers of petrol. For instance, the refiner-marketers and larger independent retailers subscribe to a petrol price monitoring service, providing near real time price information of about 3,500 sites. One option identified to help correct this lack of retail pricing transparency was the introduction of a FuelWatch scheme.

Western Australia has had a FuelWatch scheme in place since January 2001. The Federal Government has proposed a similar scheme to be in place in metropolitan and major regional centres by mid December 2008. Under the scheme, retailers are required to notify the regulator of their next day's fuel price on a daily basis by 2pm. Retailers must charge these notified prices from 6am the following day for 24 hours. Prices for the following day are made publicly available either through: an email; SMS alert; toll free number; or FuelWatch website.

The proposed introduction of a national FuelWatch scheme has attracted some debate and criticism. Analysis by the ACCC found that the introduction of FuelWatch in Western Australia reduced the weekly average price by 1.9 cents per litre.

The price of petrol before tax across the OECD is fairly similar. However, with the addition of fuel excises, in the third quarter of 2007 petrol prices in the OECD ranged from a high of around A\$2.75 per litre in Turkey to a low of A\$0.75 per litre in Mexico. Australia has a petrol excise of 38.143 cents per litre, with the result that we have the fourth cheapest petrol in the OECD.

The introduction of an emissions trading scheme in 2010 will cause an increase in the price of petroleum products. An emission permit price of \$20/tonne in 2010 would increase the price of petrol by \$0.05 per litre.



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