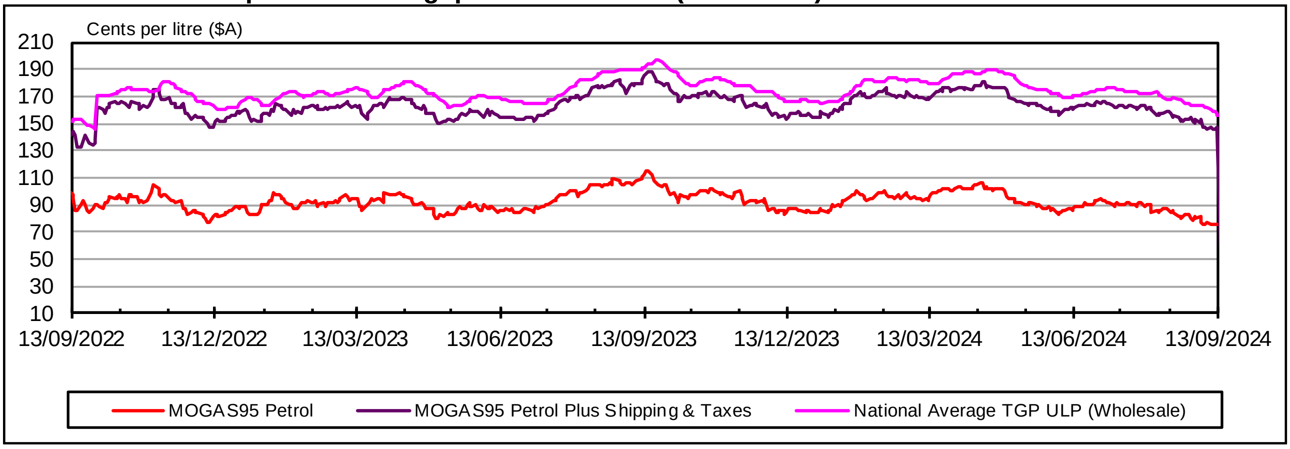
FACTS ABOUT THE SINGAPORE-WHOLESALE 'PRICE LAG'

Explaining the Time Lag between Changes in Singapore Prices and Changes in Australian Wholesale Petrol & Diesel Prices

Generally, there is a short time lag of 1-2 weeks between changes in Singapore prices and changes in Australian wholesale prices. The lag can be seen in Figure 1 below.

⇒ See the slight delay in the peaks and troughs in the **pink line** (National Average ULP TGP) compared to the **purple line** (MOGAS95 Petrol plus Shipping & Taxes).

FIGURE 1: Comparison of Singapore Petrol Price (MOGAS95) with Australian ULP TGP



Note: MOGAS95 Petrol prices and shipping rates data are supplied by Argus Media Group (see www.argusmedia.com)

Importantly, this time lag occurs whether prices are going up (when the lag slows price rises to consumers) or prices are going down (when the lag delays price falls).

The time lag is a result of using a rolling average of Singapore prices.

⇒ Rolling averages are part of wholesale pricing methodology - very similar to that used by the ACCC when wholesale prices were regulated by government. This pricing methodology is called import parity pricing (IPP). Use of rolling averages smooths day-to-day price volatility.

Not accounting for this time lag, introduced by the rolling average, leads to incorrect conclusions about how Singapore prices flow through to prices in Australia.

The very close relationship between changes in MOGAS95 Petrol and changes in Australian TGPs can be seen by applying a rolling average to the MOGAS95 Petrol data (a 7 day rolling average is used in Figure 2 to illustrate this).

FIGURE 2: Comparison of 7 Day Rolling Average of MOGAS95 Petrol with Australian ULP TGP