



SHELL AUSTRALIA'S SUBMISSION

TO

THE SENATE ECONOMICS LEGISLATION COMMITTEE
INQUIRY INTO THE PRICE OF PETROL IN AUSTRALIA

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EXECUTIVE SUMMARY

Shell believes that the Australian fuel (petrol and diesel) market is highly competitive as evidenced by the fact that Australian fuel, both pre and post tax, is amongst the cheapest in the OECD countries.

Australian wholesale petrol and diesel prices closely track movements in international petrol and diesel prices, as Australian refineries compete with international refineries and as Australia is a net importer of petroleum products, which include petrol, diesel and lubricants.

The increases in Australian wholesale fuel prices over the last three years have been due primarily to increasing world prices. World prices of crude oil and refined products have been driven up by demand increasing ahead of world refining capacity, particularly in China, supply disruptions such as those caused by Hurricanes Katrina and Rita and uncertainty in world markets about international events and their effects on oil producing countries.

Since July 2003, increases in import parity prices and the resulting tax increases, have been around 55 cents per litre (cpl). A small part of this increase has been due to the tightening of Australian Fuel Quality Standards. Shell has invested more than \$340 million dollars on its refineries to enable them to produce fuels meeting the tightened Australian fuel quality specifications.

As Shell in Australia is almost entirely a refiner and wholesaler and not a retailer of fuels, this submission makes limited comment on the retail market. Shell fully supports the Australian Institute of Petroleum's submission and the comments and observations made in it regarding the retail market. In particular, Shell's observation is that the retail market continues to be highly competitive, as indicated by the price discounting cycles in the major metropolitan markets, about which the ACCC states "it is likely that consumers in aggregate benefit overall from [these] price cycles" ("Reducing fuel price variability" 2001).

Shell's Downstream business must be viewed in the context of long term costs, investments and profitability, as demonstrated by the following observations:

- Shell's Downstream profit before interest and tax per litre of petroleum product sold for the last 5 years has been approximately: 1.6, 2.0, 1.8, 0 and 3.0 cents per litre, or an average of 1.5 cents per litre (a profit margin of around 1% on a litre of petrol);
- Shell has invested nearly \$1 billion dollars in the Downstream business (refining, distribution and marketing) in Australia over the last 5 years, which is more than it has earned as profit before interest and tax; and
- Shell's Downstream return on average capital employed since 2000 has averaged 5.5% (Current Cost of Supply basis) – lower than the average 10 year bond rate.

Shell believes there is a place in the Australian fuel mix for alternative fuels, such as ethanol-blended petrol and biodiesel. Commercial decisions on development of these blends must take into account fluctuating world prices for ethanol and hydrocarbon components, investments in blending, distribution and retailing facilities and consumer preference.

RELATIONSHIP BETWEEN LANDED PRICE OF CRUDE OIL, REFINING COSTS AND THE WHOLESALE PRICE

Shell's pricing of petrol and diesel (fuel) into the Australian wholesale market is based on import parity and uses a Terminal Gate Price structure. Wholesale market pricing is not directly related to the costs of crude oil and refining.

Within Shell's Terminal Gate Price, Shell has two primary areas where a margin is made – the refiner's margin and the terminal margin.

The refiner's margin is essentially the difference between the cost of crude oil and the wholesale market value of the products produced. This margin must cover a range of costs including refinery costs and investments and the costs of ensuring continuity of supply, such as storage capacity in addition to refinery storage. Refiner's margins are not controlled by the refinery, but by international price movements. They fluctuate over a number of years and must be viewed on the time scale of the refinery investment, i.e. decades, and in terms of return on investment in the refinery.

The second area of margin for Shell is in the terminal margin. This must cover the cost of infrastructure and operation of the Shell terminal. It is typically around 1% of the Terminal Gate Price

This section of the submission describes the import parity pricing and Terminal Gate Pricing mechanisms, which Shell uses to price its fuel into the wholesale market and concludes with a brief discussion of crude oil, refining costs and refiner's margins.

Import Parity Pricing

Import Parity Price (IPP) is the price at which a fuel can be purchased on the international market, freighted to a specific port in Australia and landed in a terminal. Typically, IPP uses a Singapore fuel price benchmark, e.g. Mean of Platts Singapore (MOPS) and includes ocean freight, wharfage charges, insurance and a **premium for Australian quality product**.

The three major influences on Australian Import Parity Pricing and changes in this pricing in the last few years have been the:

- international market for refined products;
- impact of tightening Australian fuel quality specifications; and
- increases in freight costs.

The international market price for petrol (and diesel) is heavily influenced by international crude oil prices and also by the specific product market. International crude oil price increases have been related primarily to a tightness in the global crude supply and demand balance as well as market reactions to political tensions (this is covered in more detail below). The specific product markets are driven by supply and demand for each individual product. For petrol in recent years, demand has generally been increasing ahead of world refining capacity, particularly demand from China in our region and supply disruptions such as those caused by damage to refineries in the US have meant that international petrol prices have increased relative to crude oil (see discussion on refiner's margin below).

The quality premium for Australian petrol is a result of Australia's specific fuel quality specifications. A good example is the limit of under 1% benzene in petrol, which is more stringent than in the majority of countries in the Asian region, and requires expensive refinery investment to produce. This particular fuel quality specification, introduced in Australia on 1

January 2006, means that the import parity price of unleaded fuel is more expensive in 2006 than it was in 2005.

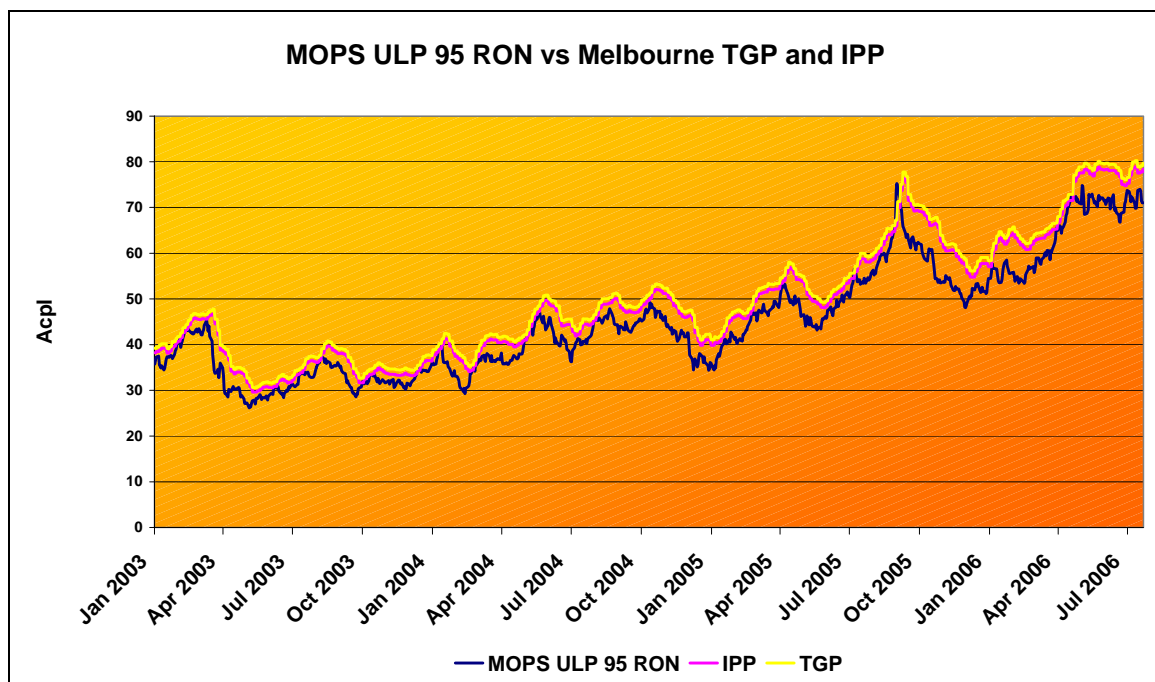
Freight costs have risen significantly over the last 5 years and are set to increase further as Australian legislation changes to require double-hull vessels. The Australian flagged vessels used by Shell for coastal movements are significantly more expensive than internationally flagged vessels.

Import parity pricing is the most suitable model for Australia because Australia's refineries have the option of selling their products internationally and because Australia is a net importer of finished petroleum products, importing around 20% of the products used in the country.

IPP does not cover the costs of additional storage that may be required to service the market and ensure continuity of supply under changing domestic supply and demand. This storage can take the form of additional facilities, such as Shell uses in Sydney through Vopak, or demurrage of vessels, which can cost millions of dollars.

Shell structures its wholesale fuel sales across Australia around a Terminal Gate Price (TGP). Terminal Gate Pricing is presently a legislated requirement in Victoria and Western Australia and is proposed as a national requirement under the Oilcode, which is part of the Federal Government's proposed petroleum market reform package. The TGP is made up of the import parity price for fuel (ex Singapore) as outlined above and includes a terminal margin to cover costs of infrastructure and operation of the terminal, excise (38.14 cpl) and GST (10%).

The graph below shows MOPS ULP 95 RON (Unleaded Petrol with a Research Octane Number 95) compared with the IPP to Melbourne and the TGP in Melbourne (before excise and GST). MOPS ULP 95 RON is an appropriate regional unleaded benchmark for Australian quality fuel as the overall properties closely reflect regular unleaded fuel under the Australian fuel quality standards – of which octane number is only one of many specifications. Both IPP and TGP here incorporate a rolling 7-day average price on the MOPS benchmark and exchange rates.



The graph shows that:

- the TGP follows the IPP very closely and has risen significantly in the last two to three years;
- import parity price makes up the vast majority of TGP (around 99%); and
- the gap between IPP and Singapore benchmark ULP 95 RON has increased significantly in the last three-four years, due to increases in the cost of freight, wharfage and Australian fuel premia.

TGP tracks IPP closely but not exactly, because Shell uses a rolling 7 day average of the daily average regional product indicator (MOPS) as the basis for TGP, which is set only twice a week. Thus, changes in international prices can take 3-4 days to begin to have an impact on the TGP, with the “full” impact taking 7-11 days.

The graph above also shows that, from July 2003, the TGP has risen by around 50 cpl before tax, or 55 cpl inclusive of tax.

The sections below discuss the costs of crude oil and refinery costs and the refiner’s margin, which is encompassed in the Terminal Gate Price.

Crude Oil

Shell has two refineries in Australia. Geelong Refinery in Victoria has a capacity of approx 110,000 bbl/d and Clyde Refinery in Parramatta, NSW has a capacity of approx 90,000 bbl/d. Between them, these refineries provide around 27% of Australia’s petroleum products.

The input to these refineries is primarily crude oil. Shell purchases the majority of its crude oil on the international market from non-Shell sources. The crude purchased comes mainly from South East Asia, specifically from Vietnam, Malaysia, Indonesia and Brunei as well as from Australia and New Zealand.

The cost of these crudes varies, depending on factors such as freight distance and crude quality. However, virtually all crudes in the region are priced off the Tapis or Minas crude markers, thus these crude markers make good reference indicators for crude price trends.

The refinery crude diet (that is the combination of crudes purchased and processed) is important to ensure that the right mix of products are produced, based on the demand across the whole barrel and based on the refinery configuration. Procuring the right crudes is done on the basis of a complex calculation of price and yield. The more expensive, lighter, sweeter crudes tend to produce more valuable products, while the less expensive, heavier, sour crudes tend to produce less valuable products once refined. In order to tailor the intake of crude to the slate of products that its refineries are required to make for the Australian market, Shell uses only a minority of indigenous crude oil.

Costs for crude in Australia are also linked to the Australian/US dollar exchange rate as crude oil is bought and sold internationally in US dollars. Thus, there are times when the international price of crude can be falling, but petrol prices are not, because of a weakening exchange rate.

Over the last two to three years, crude oil prices have risen significantly. In large part these increases have been due to production disruption, especially in the Gulf of Mexico as caused by Hurricanes Katrina and Rita, and uncertainty in the market due to rising tensions in the Middle East.

Refinery costs

Refinery costs include operational costs and capital costs. Examples of operational costs include:

1. Fuel costs for running the refinery – electricity and gas.
2. Equipment maintenance costs –Shell’s refineries were built in 1926 (Clyde) and 1953 (Geelong) and require continued spending to ensure they continue to perform effectively and are safe for operation.
3. Staff costs - more than 850 people work at the two refineries.
4. Meeting ever tightening legislation and regulation. E.g. environmental regulation related to tank seals and vapour recovery to minimize the release of volatile organic compounds and safety measures as a result of international events such as Texas refinery and Buncefield (UK) explosions.

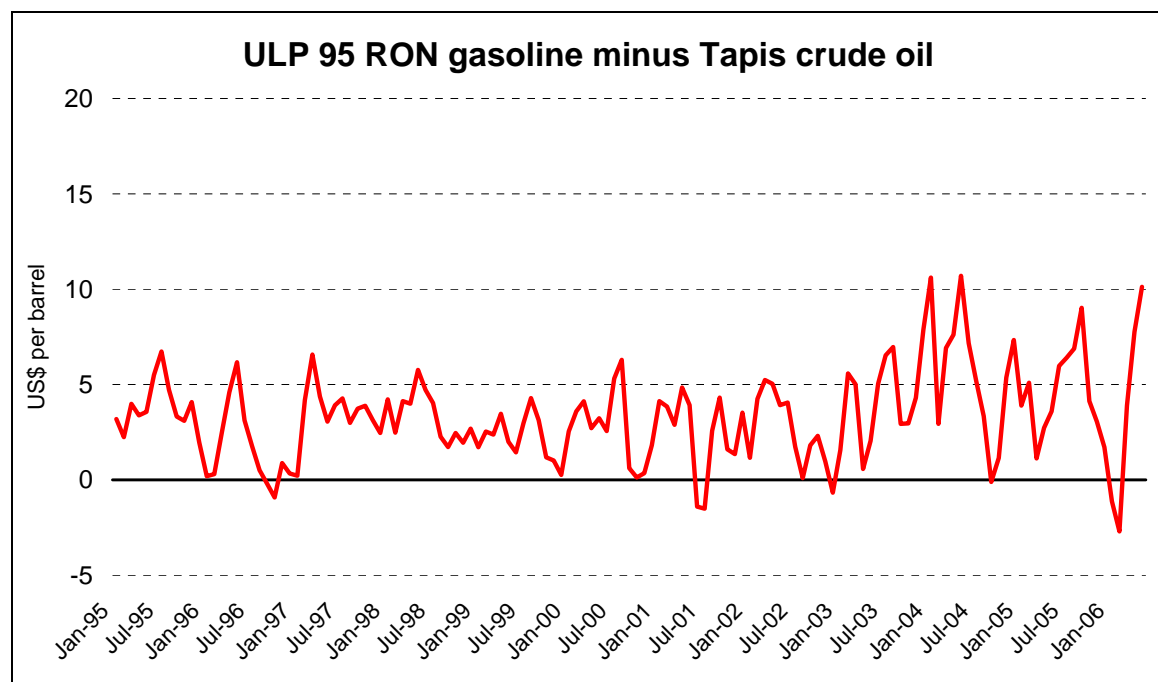
Examples of capital costs are:

1. Shell spent \$340 million to enable its refineries to meet the Federal Government’s clean fuels specifications by 1 January 2006.
2. Shell is spending \$87 million in Geelong over 3 years to meet the requirements of its regulatory licence and the expectations of local stakeholders on environmental performance.

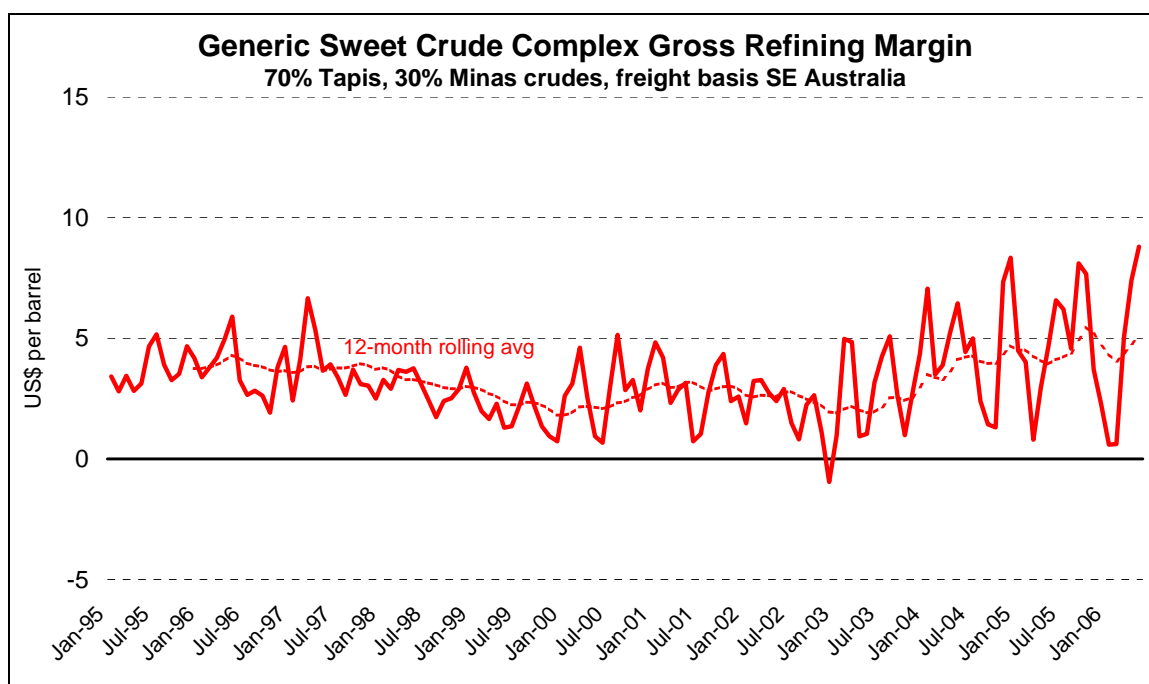
These costs must be covered by any “refiners margin”.

Refiner’s Margin

The term “refiner’s margin” is typically used to refer to the sum of the differences in price between the crude oil basket and the refined products. These differences or “cracks” vary depending on the market for both crude oil and the particular refined product. Cracks for different products vary independently, depending on market factors for each product. For example, diesel prices can be increasing relative to crude, whilst petrol prices are decreasing. The graph below shows the “crack” for MOPS ULP 95 RON gasoline for the last ten years.



The overall refiner's margin, however, is the aggregate of the differences (cracks) across all products, because in refining crude oil, a refinery must make all products. Thus the graph below shows the complex refiner's margin from a generic sweet crude mix of Tapis and Minas, that Shell's Australian refineries tend to use.



The graph shows that the refiner's margin has varied over time and for much of the last ten years has run around 2-3 US\$/bbl, or 2-3 cpl. Once refining costs, depreciation and tax are taken into account, the net margin is much lower and has often been negative over the last ten years.

It also shows that prior to the anomalous events of the last few years, the long-term trend is one of reducing refiner's margins. This overall trend is likely to continue due to ever increasing competition from Asian mega-refineries, which have advantages of economy of scale and often cheaper labor (see below).

It is important to note that the refiner's margin is not set by the refinery, but by external market factors that influence the prices of the refinery inputs and outputs. It must also cover additional storage costs (e.g. Shell's facility leased from Vopak in Sydney) and potential demurrage costs, as Shell tries to ensure continuity of supply through all domestic supply and demand fluctuations. Shell's Australian supply envelope incorporates 19 coastal terminals, 33 inland depots and delivery of some 14.7 billion litres of fuel to more than 187,000 locations.

Recently, the world has experienced increases in refinery margins, driven mainly by demand growth for refined products, particularly in China, outstripping refinery capacity. The margin spike has been exacerbated by anomalous incidents such as Hurricane Katrina, which temporarily reduced global supply capacity, and by uncertainty related to conflict in the Middle East and elsewhere.

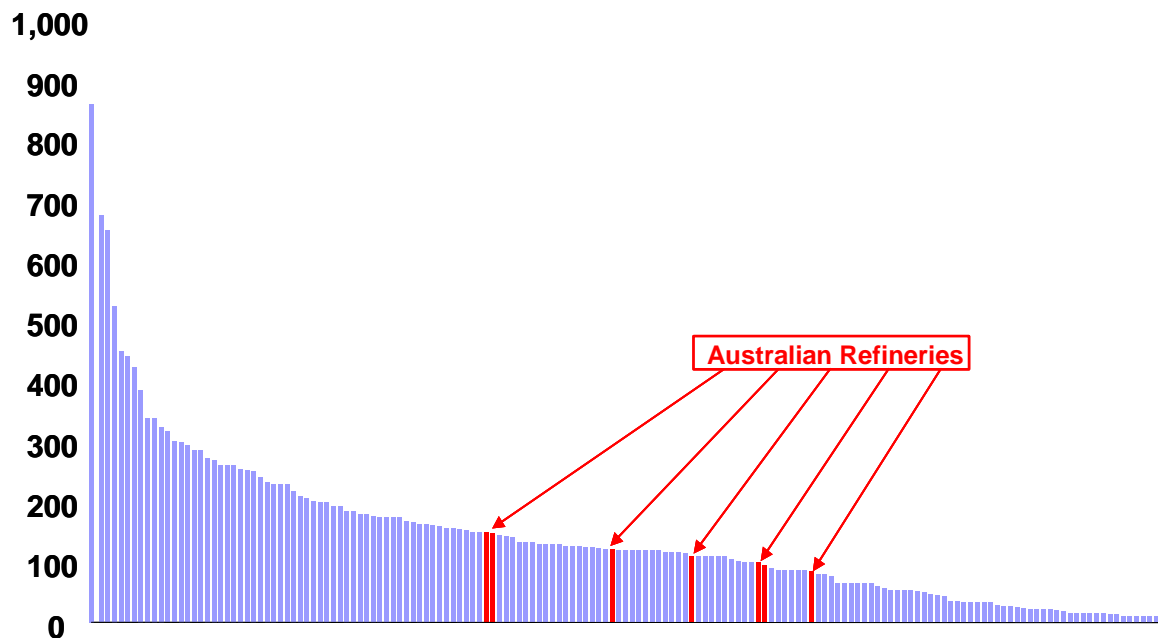
The long-term cyclical nature of margins must be taken into account in considering the risk and return on the very large and long-term investment in a refinery. Refining industry dynamics have tended to be characterized by a cycle of poor margins -> stagnant capacity ->

increased demand -> good margins -> investment/ increased capacity -> over capacity -> poor margins.

Shell believes that current high margins are temporary. We believe it is a question of when, not if, margins will decline. Crude distillation capacity increases totalling 11 million barrels per day have already been announced to come on stream in the 2005-2010 period. This compares to Australia's total capacity of 0.7 million barrels per day. The Geographic spread of these increases is: 36% Middle East, 19% India, 18% China, 21% Americas (primarily US) and 6% Europe/Africa (None expected in Australia).

An indication of the ranking of Australia's refineries is given in the graph below, which shows that any of the larger individual Asian refineries can produce almost as much as all of Australia's refineries put together! New refineries are likely to continue the trend of economies of scale. Thus pressure on Australian refineries will be ever increasing as they try to compete with Asian mega-refineries, which have advantages of economy of scale and often cheaper labor.

Asian Refineries (capacity in thousands of barrels per day)



Fuel grades

Shell sells a number of grades of petrol. The large majority of sales are of regular unleaded petrol (ULP). Shell also sells Premium Unleaded Petrol (PULP), Unleaded 95, Shell Optimax and Shell Optimax Extreme.

Unleaded 95, Shell Optimax and Shell Optimax Extreme are only sold through Shell's alliance partner Coles Express. They are fuels aimed at niche markets, are more expensive to make and include various additives to improve performance.

RELATIONSHIP BETWEEN THE WHOLESALE PRICE AND THE RETAIL PRICE OF PETROL.

In the early part of this decade, a period of low refining margins and relatively low prices for fuel in Australia put continuing financial pressure on the industry, resulting in investment returns being generally lower than the long term bond rate between 1993 and 2003. As a result the number of service stations in Australia has reduced from more than 8000 in the late 1990s to about 6,500 today (well down from an estimated 20,000 stations in 1970).

Shell's response to the financial pressures was to restructure its business in the Downstream sector in Australia and form an alliance with Coles Myer Limited, in which Shell became a wholesale supplier of fuel and Coles Express a retailer of Shell's fuel across Australia. The alliance brought together Coles Express's retailing expertise and Shell's expertise in fuel and resulted in the innovation of the shopper docket discount scheme that has proven very popular with customers across the country. There are now more than 30 similar schemes across Australia. In 2004, ACCC Chairman, Mr Graeme Samuel, said that he had found "that the introduction of the shopper docket schemes has encouraged competition and lower prices in the fuel market".

Shell's business model

Today, the large majority of Shell fuel is retailed by other parties, who set the retail price and operate any convenience stores associated with the service station. In many cases, these service stations display the Shell brand. Shell's fuel is sold by Coles Express at around 600 sites across the country, by independent owners and operators at around 350 Shell branded sites around the country and through Shell's Commercial Vehicle Refueling Outlet (CVRO) network. Shell also sells fuel to resellers of petrol, diesel and LPG who do not display the Shell brand and to a wide range of commercial customers.

The arrangements with all of these customers are based on Terminal Gate Price and may incorporate additional charges for delivery, brand and credit. Some customers also negotiate discounts as a result of the large volumes they purchase from Shell.

Shell sells its fuel directly to the customer and not through "distributors". Customers may choose to buy their fuel from Shell on a delivered basis, in which case Shell will negotiate a fee for the delivery by Shell, or by a Shell contractor.

Shell has the following arrangements with regard to retailing at service stations.

Alliance with Coles Express.

Shell supplies fuel, branding rights and delivers the fuel to around 600 Coles Express and Shell branded sites, predominantly in metropolitan and large regional centers. Coles Express operates the service stations, including the convenience stores and car washes. Coles Express independently sets the retail price for all fuels at these sites.

Shell sells to Coles Express on a pricing mechanism that incorporates Terminal Gate Price, plus charges for branding, delivery and credit.

Shell's Coles Express alliance sites constitute around 9% of the total service stations in Australia. Shell's fuel sales to Coles Express represent around 24% of total Australian retail fuel sales for on-road use, including LPG. This is different to previous estimates that fuel sales through Coles Express represented around 28% of the Australian market, because the

old estimate did not take account of the whole retail market (e.g. it related only to “metropolitan” areas) and it did not include LPG.

Independently owned and operated sites:

There are around 350 independently owned and operated, Shell branded sites across Australia. Shell supplies fuel and branding rights and provides the option to have the fuel delivered to the site. It also makes the Shell Card facility for purchasing fuel on credit available to the site. Pricing to these customers is on a TGP basis plus a fee for branding rights and where applicable delivery and credit charges.

The independent owner operates the service station and any associated facilities. The independent owner sets the retail price for all fuels at these sites.

Commercial Vehicle Refueling Outlets.

The CVRO network is a small national network dedicated to the Commercial Road Transport sector. The sites are primarily designed and positioned to cater to the refueling needs of heavy goods vehicles, with the majority in regional areas. There are approx 60 CVRO's, in Shell's national network. They sell a total of 100 million litres per annum with a diesel share of 80%. These sites are predominantly Shell owned and 44 are attached to facilities, which either were, or still are, functioning as Shell depots. Shell sets the pump prices at these sites.

It is important to note that the retail price displayed at the CVRO for petrol or diesel, does not represent the “wholesale” price at which petrol or diesel is available from the attached depot.

Other resellers

Shell also sells fuel to independent resellers, who are not Shell branded. These customers buy fuel based on Terminal Gate Price, plus costs for any other services such as delivery of fuel.

Retail prices

Shell supports the AIP submission, which makes general comments on the retail market in Australia and for completeness briefly summarises retail pricing below.

Generally the retail price is made up of:

- Terminal Gate Price, i.e.;
 - Import parity price;
 - Excise tax;
 - Terminal margin; and
 - Some GST.
- Retailing costs, i.e:
 - Costs involved in delivering fuel to the service station;
 - Administration and marketing costs;
 - Costs involved in running the service station such as wages, rent and electricity;
 - A small profit margin for the retailer; and
 - Some GST.

The TGP (ex tax) constitutes 50-60% of the price of fuel at the bowser, tax (excise and GST) around 30-35% and the retail gross margin 5-10%.

Despite being almost entirely a refiner and wholesaler and not a retailer of fuels in Australia, Shell's observation is that the retail market continues to be highly competitive, as indicated

by price discounting cycles in the major metropolitan markets. The positive impact of price discounting cycles is referred to by the ACCC in their 2001 report titled "Reducing Fuel Pricing Variability" where they quote "it is likely that consumers in aggregate benefit overall from price cycles".

REGIONAL DIFFERENCES IN THE PRICE OF PETROL

Shell customers have the option of purchasing fuel direct from any Shell terminal, providing the fuel is picked up in an accredited fuel tanker (to meet industry safety regulations). Where customers prefer to have their fuel delivered, Shell offers this service and will negotiate a price for delivery, which is dependant on volume delivered and location. Depending on where a customer is located, delivery of the fuel will be via a Shell tanker or hired carrier and may involve storage at a local fuel depot prior to final delivery.

Delivery in the more remote parts of Australia is expensive due to the large distances, relatively low volumes of fuel and additional infrastructure required to distribute fuel in these areas. For example, inland depots which are used as interim points for storing and then redistributing fuel to customers in the vicinity of the depot constitute an additional fixed cost to the supply chain. Clearly in parts of Australia, the distances between terminals and depots and the final delivery can be large and they will thus add a further significant amount to the delivered cost.

Many regional sites carry only a limited convenience store offer. Consequently, the majority of the overheads (wages, rent, electricity) must be met by fuel sales. However, most service stations in regional areas will sell lower volumes of fuel than metropolitan service stations. Thus a much higher margin is required on each litre of petrol sold to cover the overhead costs of the service station.

BIOFUELS

Shell is presently designing and developing its next biofuel product, to follow the well-received introduction of Shell Optimax Extreme last year. Shell supports the Australian Government's target for the use of 350 ML of biofuels in transport fuel in Australia by 2010.

The economics of biofuels are highly dependant on relevant commodity prices

Shell advocates that commercial decisions around supplying and retailing biofuel blends must balance whether and how to take the risk of the medium to long-term investment in infrastructure with uncertain reward based on the short-term fluctuations in commodity prices and consumer behavior.

Economics and pricing of biofuels must take account of the following factors:

- The relative price of ethanol and hydrocarbon fuel;
- Costs associated with the blending, distribution and sale of biofuels – particularly ethanol, for instance terminal infrastructure and retail site tank preparation;
- The cost of adjusting the refined hydrocarbon fuel to allow the blended biofuel to meet environmental specifications such as the Reid Vapor Pressure (RVP), volatility specification, if there is no appropriate variation or waiver in place; and
- The fact that ethanol blends are less energy efficient – i.e. they don't take motorists as far per litre sold. Shell estimates that E10 blends contain around 3% less energy and an E85 blend contains around 40% less energy.

Shell Optimax Extreme

Shell Optimax Extreme, containing 5% ethanol, was designed to help address the issue of consumer confidence in ethanol. It is a niche fuel aimed at a small portion of the market and is Australia's first 100 Octane "super-premium" product. Shell Optimax Extreme is not Shell Optimax + ethanol, but has been carefully formulated from a range of refinery components and ethanol. For example, the base (non-ethanol) fuel is designed to have a higher energy density to mitigate the reduction in energy density of adding the 5% ethanol.

Shell Optimax Extreme is thus priced at a premium to Shell Optimax, which in turn is priced at a premium to regular unleaded grades of petrol.

Second generation technology offers significant greenhouse advantage

Ethanol from food crops and bio-diesel from plant oils are considered first generation bio-fuels because they have limited potential for further cost reduction and their source material i.e. sugar or wheat can also be used for food crops and so compete for land use. New fuels based on biomass conversion that convert the cellulose contained in plant residues, such as straw and stems, into sugars (2nd generation bio-fuels) have the potential to overcome these limitations while delivering much bigger reductions in CO₂.

Internationally, Shell is conducting research into these new technologies that convert agricultural waste to fuel, with its Canadian partner, Iogen. The technology, known also as cellulose ethanol production is used in a demonstration scale prototype plant in Canada. Shell is also engaged in research and development to develop Biomass-to-Liquid processes, in which a woody feedstock is converted into high-quality diesel fuel components. In this respect Shell has recently announced a partnership with CHOREN Industries.

Given that these technologies are emerging, Shell believes that any policy or support should clearly link to the proven performance of individual bio-fuels in the delivery of well-to-wheel carbon dioxide emission reduction. Bio-fuels that are most effective in delivering well-to-wheel carbon dioxide emission benefits should receive the most support, whilst those least able to deliver such benefits should receive substantially less support.

Appropriate regulation, enforced compliance and infrastructure support programmes can help move ethanol blends forward now

- Shell advocates the need for consistent RVP regulation across the country, taking account of the inherent higher volatility of ethanol blends. Shell recognizes that the Federal Department of Environment and Heritage is progressing this issue.
- Enforcement of compliance with regulations (such as RVP and maximum ethanol content) and implementation of appropriate safety measures (such as appropriate underground tank preparation and safety facilities for blending) is important to prevent the recurrence of negative public perception and thus for the continued development of the industry.
- Infrastructure support programmes, that recognize the significant infrastructure costs in the blending and retail end of the biofuel chain will help facilitate implementation of ethanol blends at the consumer level. The Queensland Government's Queensland Ethanol Conversion Initiative is a good example.

OTHER FACTORS

Competition in the Australian market

Australia is a highly competitive market for petrol. Evidence to support this includes:

- Australians enjoy among the cheapest pre and post tax petrol in the OECD;
- Returns to Australian refiner-marketers have largely been below the long term bond rate for the last twenty years and well below international benchmarks for the industry – e.g. Shell announced a profit of \$4 million in 2004 in its Downstream business in Australia; and
- The proliferation of retail discount schemes since Shell and Coles Express introduced their 4cpl discount scheme in 2003. The ACCC has examined the shopper docket arrangements (2003) and concluded that: ‘shopper docket petrol discount arrangements were likely to result in lower petrol prices for consumers, generation of a culture of discounting, and increased non-price competition. In August 2005, in their brochure “Understanding petrol pricing in Australia”, the ACCC concluded that ‘developments in the petrol retailing market over the last two years indicate that these results have in fact occurred’.

Shell financial facts

- Shell has invested more in the industry in Australia (capital expenditure) than it has received as profits before interest and tax over the last 5 years. (e.g. \$340 million spent on clean fuels upgrades at Shell’s refineries).
- Shell’s Downstream profit expressed as Profit (before interest and tax) per litre of petroleum product sold for the last 5 years has been approximately: 1.6, 2.0, 1.8, 0 and 3.0 cents per litre, or an average of 1.5 cents per litre BEFORE any reinvestment of capital. This incorporates refiner’s margin, notional terminal margin, sales and operations margins and all other margins. These figures should be contrasted to the 55 cpl increase in retail prices based on world market factors over about the same time period.

These figures give a clear indication that not only is the market in Australia highly competitive, but it is a difficult market in which to make a reasonable profit.

Downstream (Refining & Marketing)

	2001	2002	2003	2004#	2004##	2005
Revenue \$Amillion	9340	8953	11003	12940	13095	15722
Profit before interest & tax* \$Amillion	155	203	183	4	43.5	300**
Capital expenditure \$Amillion	106	224	178	144	144	267
Production crude processed m bbls	73	71	67	62	62	63

*Current cost of sales basis. This excludes the effect of changes in oil prices and gives a clear picture of the underlying performance of the business.

** PBIT excludes \$A215 million in income for the sale of trademarks to Shell Brands International (SBI)

2004 results reported in 2004 media briefing

2004 results have been recast due to new International accounting standards.