



energy

Department:
Energy
REPUBLIC OF SOUTH AFRICA

Presentation to the Portfolio Committee on Energy

Fuel Price

21 August 2018

Parliament

10h00

Presentation Outline

- Introduction
- Overview of Liquid Fuels Sector
- Industry Context
 - Crude oil imports
 - Main causes of high fuel prices
- Liquid Fuels Sector Value Chain
- Legislative Framework
- Policy Position
- Composition of the Pump Price
- Fuel Pricing in South Africa
- Maximum Refinery Gate Price (MRGP) for LPGas
- Interventions
- Frequently asked questions

Introduction

- ❑ Fuel Prices are at all time high in South Africa
- ❑ Concern on the part of society as Fuel is an input cost to economic activity
- ❑ Government, Labour, Business, Civil Society and general Populace in unison on the negative impact of these high prices
- ❑ Concern on the part of the Portfolio Committee on Energy
- ❑ Department to provide clarity on why the prices are where they are and what options are there for intervention going forward

Overview of the Liquid Fuel Sector

- ❑ The SA petroleum industry accounts for:
 - ❑ **8.1%** contribution to the national GDP
 - ❑ **>100 000 jobs** (direct and indirect)
 - ❑ **R365 billion p.a.** in turnover
 - ❑ **R72 billion p.a.** in duties and levies
 - ❑ **R9.6 billion p.a.** in capital expenditure



Industry Context

- South African economy relies heavily on Petroleum
- RSA is dependent on imported Crude Oil and increasingly imported Petrol and Diesel imports
- No proven oil resources in the country yet except the Shale Gas potential
- Dominated by Private Sector
- Petroleum Import dependence is increasing

Crude Oil Imports (January to December 2017)

- ❑ Saudi Arabia 49%
- ❑ Nigeria 24%
- ❑ Angola 20%
- ❑ Togo 2%
- ❑ Equatorial Guinea 1%
- ❑ United States of America 1%
- ❑ Cameroon 1%
- ❑ Ghana 1%

Main Causes of High Fuel Prices (1)

1. OPEC + Decision

- Prices were \$115 in 2014
- January 2016 Crude Oil was below 30 USD per Barrel
- In November 2016 OPEC + key Non OPEC Producer (especially Russian Federation) removed 2% of Global Oil Production to support higher oil Prices
- In 2018 prices are around \$80
- Result – Oil Prices have more than doubled in 24 months
- To a large degree OPEC + have achieved their objective to the detriment of Petroleum consumers globally

Main Causes of High Fuel Prices (2)

2. Geo-Political Instability

□ Instability in Venezuela

- Political Turmoil in Venezuela has led to near collapse of Oil Production in this Key OPEC Member
- Venezuela also under US financial sanctions

□ Production Challenges in Libya

- Since the change in Government in Libya in 2011 Libyan Production has been Intermittent
- From 1.5 Million Barrels per day to at best 600 000 barrels per day on average

Main Causes of High Fuel Prices (3)

2. Geo-Political Instability (cont...)

□ Recent US Policy Towards Iran

- In May 2018 US decided to withdraw from the Joint comprehensive Programme of Action (JCPOA) signed with Iran
- Immediate imposition of US sanctions enforceable by November 2018
- Iran is a major producer of Oil and Sanctions include Embargo on Iranian Oil Exports
- Market has to factor this into Crude Oil Price

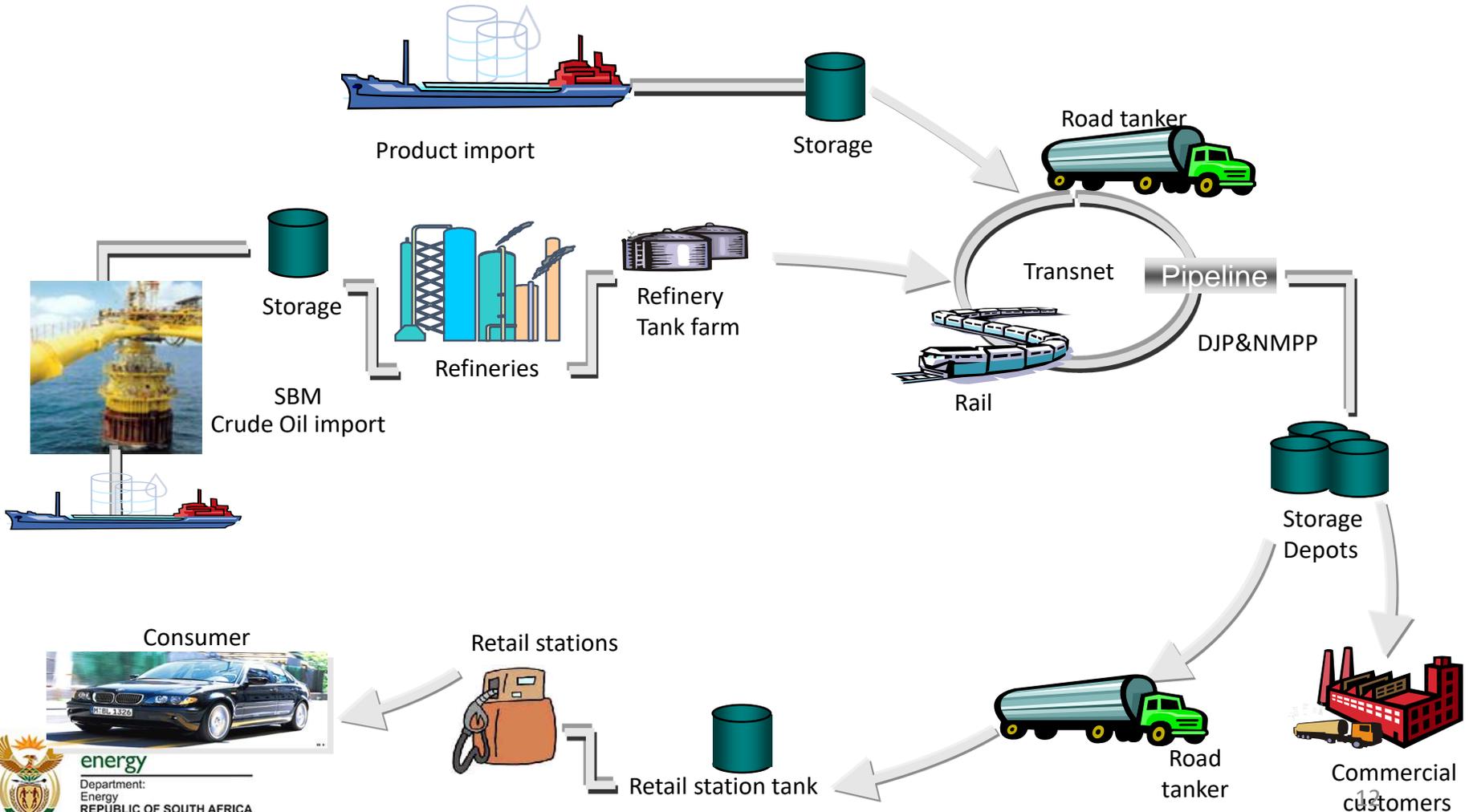


Main Causes of High Fuel Prices (4)

3. Global economic recovery

Global economic recovery in 2017 and impact on the demand of oil resulted in approximately 1.5 million b/d increase in demand

Petroleum Supply (Value) Chain



Legislative Framework

- ❑ The Minister of Energy, under section 2(1)(c) of the Petroleum Products Act, 1977 (Act No. 120 of 1977), is empowered to regulate prices of petroleum products
- ❑ Section 2A(1) of the same Act empowers the Minister to license wholesaling and retailing activities
- ❑ The National Energy Regulator (NERSA) is a regulatory authority established as a juristic person in terms of Section 3 of the National Energy Regulator Act, 2004 (Act No. 40 of 2004). NERSA's mandate is to regulate the petroleum pipelines industry in terms of the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003)

Policy Position And Key Pricing Mechanism

1. Policy position:

- Apply import parity principle; refineries to be cost-efficient and compete on a pricing-basis with international refineries
- Apply cost-recovery principle
- Regulate petrol prices at retail level
- Regulate retail prices of LPGas
- Regulate a Single Maximum National Retail Price (SMNRP) for Illuminating Paraffin (IP)
- Publish reference wholesale list prices for diesel and IP
- Apply most cost-efficient mode of transport to determine primary transport cost implemented into fuel price structures

Policy Position And Key Pricing Mechanism

2. Key Pricing Mechanism

- Apply the BFP mechanism (import parity)
- Apply the Regulatory Accounts System (RAS) to set retail, wholesale, secondary storage and secondary distribution margins applicable in retail prices of petrol
- Apply the most cost efficient mode of transport to set transport cost in 54 Fuel Pricing Zones
- Apply ring-fenced fuel levies as and when applicable

Composition Of The Pump Price

	Petrol 95 ULP c/l	Petrol 93 ULP & LRP c/l	Diesel 0.05% S c/l	Diesel 0.005% S c/l	Illumi- nating Paraffin c/l
Wholesale margin	34.000	34.000	67.660	67.660	67.660
Secondary Storage	18.600	18.600	18.600	18.600	18.600
Secondary Distribution	15.900	15.900	15.900	15.900	15.900
Router Differential	0.000	0.000	0.000	0.000	7.400
Retail margin	187.200	187.200	0.000	0.000	0.000
Zone differential in Gauteng	51.700	51.700	51.700	51.700	63.400
IP Tracer levy	0.000	0.000	0.010	0.010	0.000
Fuel levy	337.000	337.000	322.000	322.000	0.000
Customs & excise duty	4.000	4.000	4.000	4.000	0.000
RAF levy	193.000	193.000	193.000	193.000	0.000
Petroleum Products levy	0.330	0.330	0.330	0.330	0.000
Slate levy	0.000	0.000	0.000	0.000	0.000
DSML	10.000	0.000	0.000	0.000	0.000
Equalisation Fund Levy	0.000	0.000	0.000	0.000	0.000
Pump Rounding	0.200	0.200	0.000	0.000	0.000
Sub-total	851.930	841.930	673.200	673.200	172.960
<u>Contribution to the Basic Fuel Price</u>	751.070	739.070	767.630	772.030	780.128
<u>Retail Price</u>	<u>1,603.00</u>	<u>1,581.00</u>			
<u>Wholesale price</u>			<u>1,440.830</u>	<u>1,445.230</u>	<u>953.088</u>



Pricing of Petroleum Products (I)

Retail Margin - How the Retail Margin is calculated

- Historically a survey by SBAB (annually)
 - Annual operating costs (OPEX)
 - Average annual petrol sales
- Other costs adjusted by CPI
- Asset Base adjusted by PPI
- Total volumes from the oil companies
- Electricity adjustment in July (NERSA)
- Salaries for Forecourt workers (MIBCO)

Pricing of Petroleum Products (I) cont....

Fuel Levies

- ❑ **Petroleum products levy:** to reimburse the pipeline users for the applicable NERSA tariff on transporting fuel through the pipeline - levy set by the Ministers of Energy and of Finance in line with the expenditure budget of NERSA
- ❑ **IP Tracer dye levy:** to reimburse the oil industry for buying IP tracer dye and to inject it into IP to curtail the mixing of IP and diesel (loss to the Fiscus)
- ❑ **Slate levy:** to finance the cumulative under recovery of the industry. Only applicable when the cumulative Slate balance exceeds R250 million (under recovery)
- ❑ **Fuel levy:** Tax levied by Government (Minister of Finance)
- ❑ **Custom and Exercise levy:** a duty collected in terms of the Customs Union Agreement
- ❑ **Road Accident Fund (RAF) levy:** To compensate for people involved in vehicle accidents
- ❑ **Demand Side Management levy (DSML):** Introduced in 2006 to curtail the use of ULP 95 in the inland market

Pricing of Petroleum Products (II)

BFP

- ❑ RSA is Net Oil Importer and also imports significant amounts of refined diesel as well as Petrol
- ❑ Prices based on International Benchmark Prices at key refining centres
- ❑ Prices affected by Geopolitical Events, International Demand as well as Natural Disasters
- ❑ Currency Fluctuation also plays a major role as Oil Prices are quoted in USD per barrel or ton

BFP Structure

1. Free-on-Board (FOB value)
2. Freight
3. Insurance
4. Ocean Loss
5. Cargo Dues
6. Coastal storage
7. Stock Financing
8. Demurrage cost

FOB values

Utilise daily spot prices of petroleum products reported by Platts (an international fuel price reporting agency)

- Petrol: 50% Med (Italy) + 50% Singapore

- Diesel and IP: 50% Med (Italy) + 50% Arab Gulf

Platts cheapest fuel pricing reporting agency

[paid by CEF (SOC) Ltd]

Differential between IBLC and BFP: R1.0 billion saving in first 12 months

FREIGHT

- Freight rates published by the Worldscale Freight Rate Association as of 01 January each year are applied
- Single port charges applied to Durban and Cape Town
- Two port charges applicable to PE, EL and Mossel Bay. One average rate applied based on volume weightings.
- In 2002, freight charged to ship products to South Africa carried a premium of 15%----included in freight rates applied in BFP
- Freight rates adjusted in line with the monthly average freight rate assessments compiled by the Worldscale Freight Rate Association
- Freight rate assessments based on supply and demand of vessels and risks to

Insurance

- ❑ Products are insured by the buyer
- ❑ Insurance costs are equal to 0.15% of the sum of the FOB and freight costs
- ❑ International tariff applied: 0.15%

Cargo Dues (Wharfage)

- Level of cargo dues set by the National Ports Authority of South Africa
- Cargo dues to be paid by vessel owners for utilising harbour infrastructure

Ocean Loss

- ❑ Provision (an international practise) is made for product loss whilst being transported.
- ❑ The current ocean loss is 0.3% of the sum of the following values:

FOB + Freight+ Insurance

Coastal Storage

- ❑ This is to cover the cost of providing storage and handling of fuels at coastal terminals
- ❑ Cost of storage was initially assessed in 2002 at 2.5 SA cents per litre per month or USD3.0 per ton per month (information obtained from the international market)
- ❑ BFP makes provision for 25 days of storage (*25 days negotiated*)
- ❑ Cost escalated annually in line with PPI increases (*escalation negotiated*)
- ❑ Cost escalation effective in July each year (*as negotiated*)

Stock Financing Costs

- ❑ This cost is calculated as a SA cents/litre amount of each product on monthly landed cost values
- ❑ The basis for the calculation is
 - (a) 25 days stock (*as negotiated*); and
 - (b) Ruling SA prime interest rate minus two percentage points (*as negotiated*)

Stock financing costs determination

Stock financing cost = (landed cost value of product x (prime interest rate - 2%) x 25/365

Demurrage

- ❑ Applicable for delayed time spent by vessels to be loaded with products and time spent for discharging products. For example: port congestion, awaiting berth, ullage constraints, slow pump/discharge, bad weather and vessel pulled off berth to later enter port.
- ❑ Demurrage rates published annually by the London Tanker Brokers Panel in USD/ton
- ❑ Demurrage rates applicable to vessels falling in the range of 35,000 to 39,999 DWT class tankers (*size of vessels which can enter SA ports*)
- ❑ Demurrage days allowed: 3 days (*negotiated*)
- ❑ Demurrage rates currently negotiated separately for each spot voyage charter as part of the overall negotiated freight tariff

Maximum Refinery Gate Price (MRGP) for LPGAS

- MRGP set at the BFP of 93 ULP less R74.00/ton
- MRGP mechanism currently under review by the DoE Policy unit

Interventions

- Recognize that crude oil prices are cyclical
- Implement Energy (fuel) saving measures in the short term
- Sustain engagements with oil producing countries on impact of oil prices on developing countries
- Extract more efficiencies from existing key infrastructure owners/operators
- Continuously review the relevance of some of the pricing elements in the BFP
- Finalize framework for the exploration of oil and gas in South Africa
- The MPRDA amendment needs to be finalized as it will encourage potential investors to explore within the waters of RSA

Frequently Asked Questions

1. Why are the fuel prices changing every month?
2. What is over (under) recovery?
3. Why is petrol cheaper in neighboring countries and yet they purchase it from RSA?
4. Why is SASOL not selling petrol at lower prices because they produce it from coal and they are placed in GP?
5. Why is the government not deregulating fuel prices?
6. Why is ULP95 more expensive than ULP93 in GP, but the cost the same price in coastal areas?
7. Why is the government not buying oil from African countries at a lower prices?

End

