

MEDIA RELEASE

Factors influencing the cost of fuel in South Africa

30 June 2022, Johannesburg – In the lead up to the June fuel price adjustment, the South African Petroleum Industry Association (SAPIA) hosted a media round table to explain the mechanics of how fuel prices are determined and what influences the cost at the pump for consumers. The fuel price and its structure has been the topic of public conversation in recent months.

In April Ministers Enoch Godongwana and Gwede Mantashe announced in a joint statement, the short-term relief measures to address fuel price increases. These measures provided immediate relief to consumers impacted by the rising prices of fuel.

The “two-phase approach” included this temporary reduction in the general fuel levy for April and May and was funded by the liquidation of a portion of the strategic crude oil reserves. SAPIA has been engaging in discussion with the government on the second phase.

The fuel price in South Africa is regulated by the government and fuel price adjustments are effective on the first Wednesday of the month. The calculation of the new price is done by the Central Energy Fund (CEF) on behalf of the DMRE.

The calculation of the fuel price in South Africa

The petrol pump price is composed of a number of price elements which include international and domestic factors. The pump price is built off the Basic Fuel price (BFP) which mimics the costs of the importation of a substantial amount of petroleum products into South African. From this, various duties, levies and allowable margins are added to reach the final pump price for petrol. Although the diesel retail price is not regulated a wholesale list price (comprising the diesel BFP and various duties and levies) is provided.

The BFP formula which was implemented in 2003, provides the connection to world markets such that South African prices for liquid fuels are not arbitrarily determined but reflect real world international prices outside local duties, levies and margins.

The BFP determination starts from the use of spot prices quoted on international markets from certain references as follows;

- For petrol: 50% Mediterranean/50% Singapore.

Board of Governors:

H. Mtolo (Chairperson), M. Kane-Garcia, M. Carrim, O. Naidu, P. Naidoo, P. Vilakazi, S. Naidoo, T. Mojapelo, T. Booley & T. Ramuedzisi

- For diesel and paraffin: 50% Mediterranean/50% Arabian Gulf.

The cost of shipping and related costs of importing the products into South Africa are then added. These converted to South African Rands to provide the BFP.

The pricing system

There are a number of factors that influence the price of controlled petroleum products:

- The external dollar factors which vary from day to day
 - the dollar price of the product on world markets which is influenced by supply and demand dynamics for liquid fuels – petrol, diesel, jet fuel and LPG. Note products are not directly priced off crude oil although the price of crude oil influences these products
 - The prevailing R/\$ exchange rate
 - The cost of shipping from the deemed supply centres to South Africa.
- The internal, Rand factors which are relatively constant but change on an annual basis
 - Duties and levies administered by National Treasury
 - Magisterial Zone Differentials or the cost of transport to supply various magisterial districts from supply points administered by the DMRE
 - Allowable margins on petrol storage, distribution, retail etc managed by the DMRE

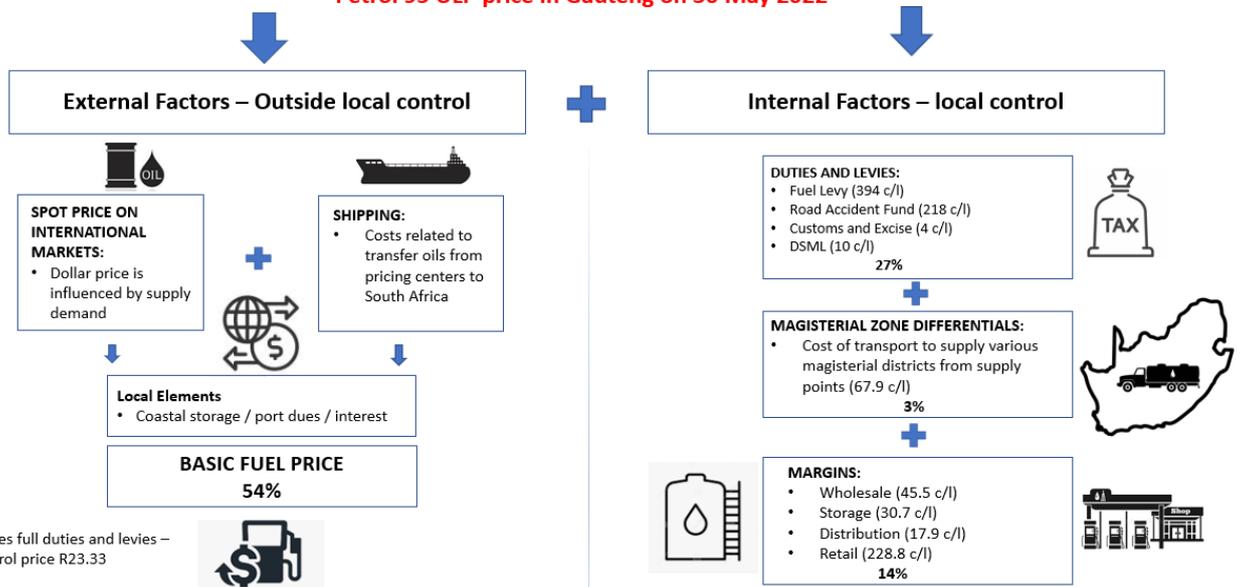
The external factors move constantly and account for most of the monthly movements in prices and are outside the control of the industry. The Monthly Pricing System, whereby the controlled prices are changed on the first Wednesday of each month, takes account of movements in these factors. When the various internal factors are adjusted – usually once a year – these movements are also included in the relevant monthly price changes.

Movements in the Rand-based elements which are the internal factors, are subject to government control. The overriding rationale of the control of prices and margins should be to ensure that the various stakeholders in the industry earn fair returns. The returns should be sufficient to encourage investment in the industry, while not being such as to represent over-reward.

While the system to determine fuel price adjustments is not flawless, it is a fair and transparent process, documented, subject to constant review and auditable. SAPIA supports the DMRE in using the current pricing mechanisms and will continue to engage and provide input into any review of this pricing system.


PETROL PRICE


Petrol 95 ULP price in Gauteng on 30 May 2022 *



ENDS

About SAPIA:

SAPIA represents the collective interests of the South African petroleum industry and plays a strategic role in addressing a range of common issues relating to the refining, distribution and marketing of petroleum products, as well as promoting the industry’s environmental and socio-economic progress. SAPIA fulfils this role by contributing to the development of regulation in certain areas of South African policy; proactively engaging with key stakeholders; sharing research information; providing expert advice; and communicating the industry’s views.

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