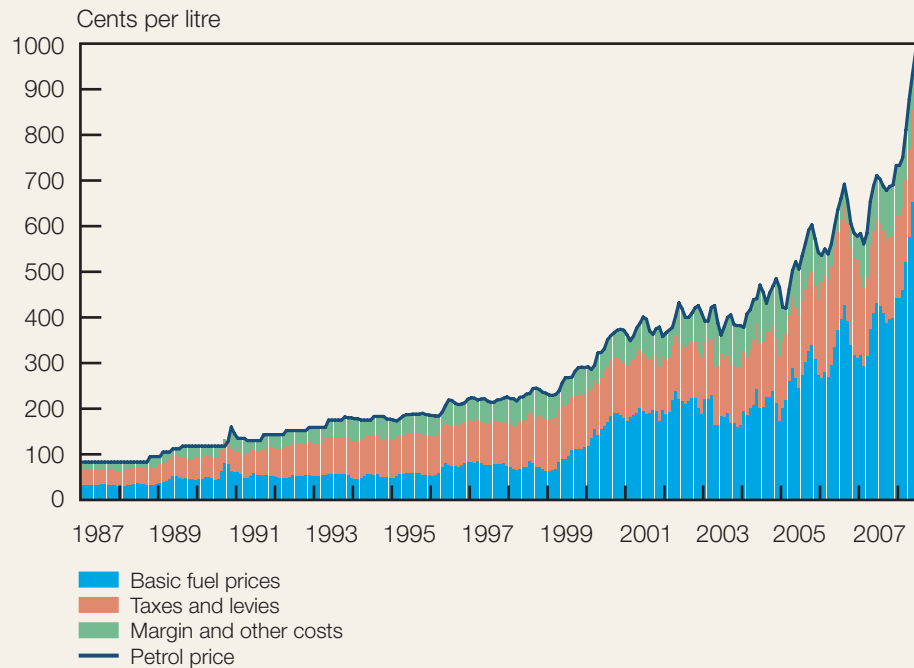

Changing composition of the petrol price

Three types of petrol are sold domestically, namely 93 octane lead replacement petrol, 93 octane unleaded petrol, which was introduced in May 2000, and 95 octane unleaded petrol. The prices of the two 93 octane variants are identical in Gauteng and the 95 octane unleaded petrol is available inland at a premium to the price of 93 octane.

The domestic petrol pump price is made up of the basic fuel price, dealer and oil company margin, transport costs, service differential, taxes and levies including customs and excise. The basic fuel price replaced the in-bond landed cost component of the pump price from April 2003. In essence, the basic fuel price is an import parity price that is equal to the estimated actual cost to import substantial volumes of refined fuel. Its value is based on the spot prices quoted daily in international markets, taking the prices quoted in the Mediterranean Sea area and in Singapore with equal weight. This component is reviewed once a month, based on the average over the previous month of the daily internationally quoted prices of petrol in United States dollars, converted into local prices using the relevant exchange rate.

The basic fuel price in South Africa is influenced by developments in international crude oil prices, global refining margins, which reflect the supply of, and demand for, petroleum products, and developments in the exchange rate of the rand. Other components of the pump price, namely taxes and levies, as well as production and distribution costs and margins tend to be relatively stable, while the basic fuel price is usually the prime driver of changes in the petrol price. The accompanying graph shows how the level and composition of the pump price of petrol have changed over the past two decades. Before 1999 international oil prices were relatively subdued and the basic fuel price barely constituted a third of the pump price.

Components of petrol price (93 octane in Gauteng)



Subsequently, rising international prices of oil and petroleum products have bolstered the basic fuel price, while taxes and levies as well as margin and other costs have recorded much smaller changes. Most recently, the basic fuel component accordingly accounted for around two-thirds of the petrol price. For instance, in May 2008 the composition of the cost of a litre of 93 octane petrol in Gauteng could be decomposed as follows: Basic fuel price: 70 per cent; retail and wholesale margins: 8 per cent; and taxes and levies: 22 per cent.

N Maphalala