# Pacific Fuel Price Monitor

30th Sep 2006

**Edition 14** — **Fuel Prices for Jan/Feb and Mar/Apr, 2006**

## Pacific Fuel Price Monitor at a Glance

Is it the end of rising oil price trend? August 2006 started with a surge in crude oil prices and ended with a rapidly falling price trend. Many analysts feel that the worst is over and we may never face such record oil prices again, others believe that it is an "error correction period" which may not last long. Some also expect crude oil prices to fall to around US$60/bbl by the end of this year before taking-up another rising path.

The Asia-Pacific benchmark Tapis crude oil price averaged at around US$75/bbl while refined product prices peaked at the $85/bbl mark over the last two months. At the heights of such price increases, many FICs have become more demanding of the level of technical assistance from the PAS Unit to help review and identify opportunities for improvement in their energy sector.

While some FICs frequently face the effects of international price change, others have a lag of one week to two months depending on the regulatory arrangements that are in place. While high oil prices are rapidly taking an effect in the market place, there has yet to be a corresponding slowdown in demand for the products highlighting the "inelastic nature" of petroleum demand in the Pacific, as other discretionary spending were reduced to cover for the increased energy prices. Some service station operators in Fiji only noticed a change in consumer behaviour after the spot prices hit the last record highs forcing people to become more conservative and efficient.

### Brief Overview

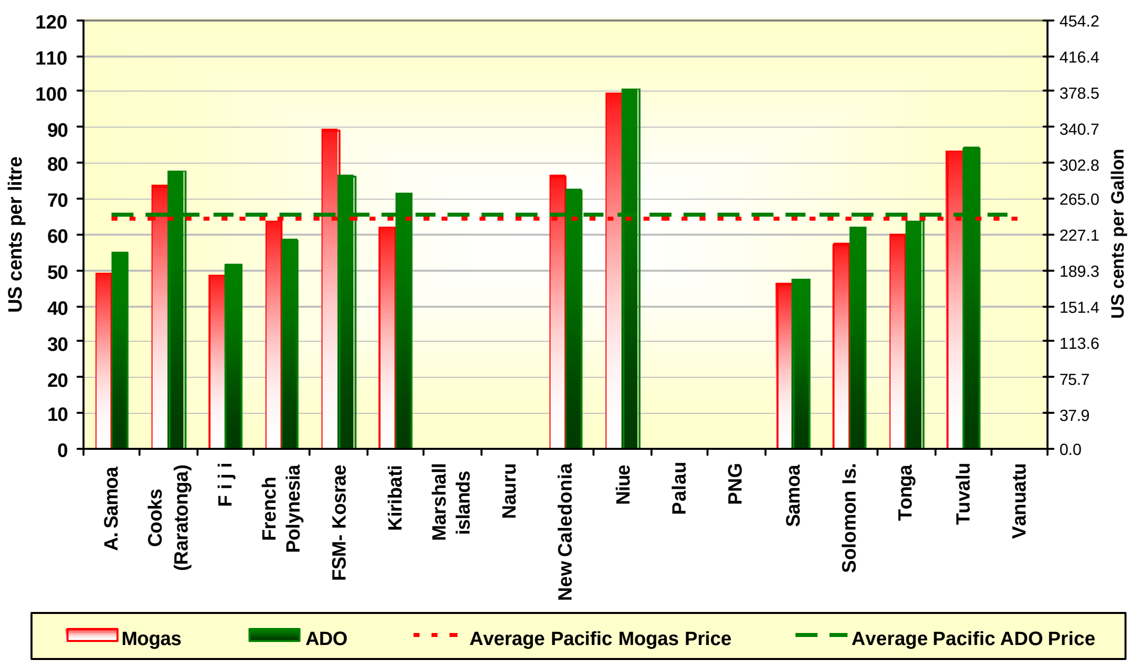
- The pacific-wide[1] average pre-tax wholesale prices for Petrol, Diesel and Kerosene during the Mar/Apr were around US 65 cpl, 66 cpl and 63 cpl, respectively.
- Oil markets have displayed significant declines in prices for gasoline products. Prices for kerosene and diesel prices remained high.
- A growing demand from a number of FICs seeking technical assistance and advice from the PIFS on fuel issues.
- The $85/bbl high of October has improved alternatives such as solar, wind, hydro, biofuels (coconut oil) and LPG, with energy efficiency measures to reduce fuel (oil) consumption.

### What's inside……….



## 1. REGIONAL WHOLESALE FUEL PRICES (*excluding duty and tax- March/April*)

**Figure 01: Regional Wholesale Prices (excluding Tax & Duty)** - March/April




[1] All surveyed PICs (excluding Australia, NZ and Hawaii and Niue). **Note**: Report was not compiled for Sep/Oct prices even though data was collected from the FICs.

## 2. REGIONAL MOGAS (PETROL) PRICES

**Figure 02: Regional Retail Mogas Prices (US cpl) - January/February**

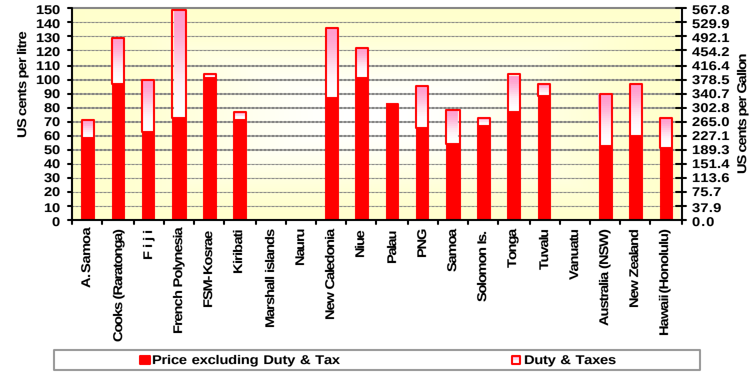
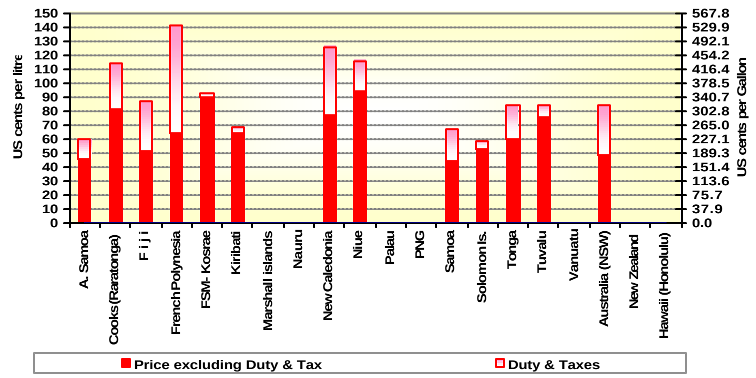



**Figure 03: Regional Wholesale Mogas Prices (US cpl) - January/February**




### Key Observations – Jan/Feb Petrol Prices

- Pre-tax and after-tax Pacific-wide average RETAIL prices for Petrol in Jan/Feb period were US76 cpl and 100 cpl, respectively. Pre-tax and after tax Pacific-wide average WHOLESALE prices for Petrol in Jan/Feb period were US64 cpl and 89 cpl, respectively.
- The international oil market plays a primary role in determining average petroleum product prices in the FICs, with domestic prices dependent on the type of regulatory arrangements in place (if any).
- *Duty and Taxes were not provided by Palau.*

**Figure 04: Regional Retail Mogas Prices (US cpl) - March/April**

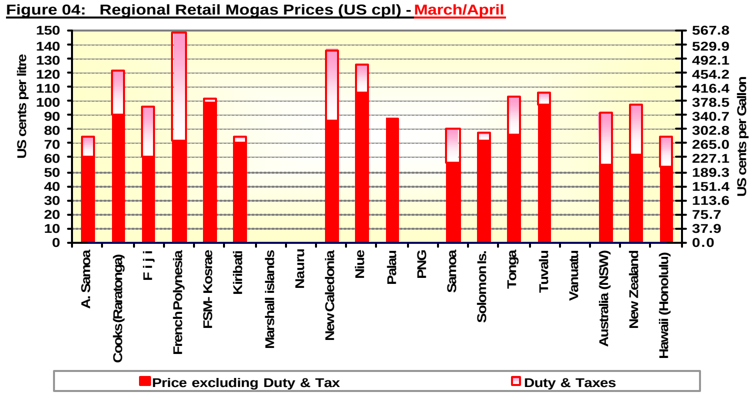
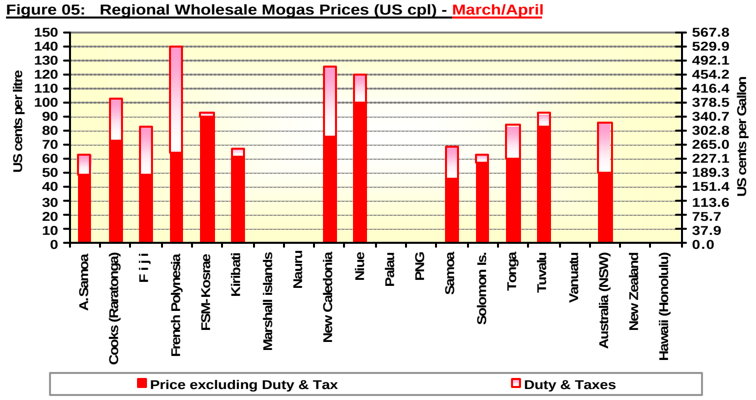



**Figure 05: Regional Wholesale Mogas Prices (US cpl) - March/April**




### Key Observations – Mar/Apr Petrol Prices

- Pre-tax and after-tax Pacific-wide average RETAIL prices for Petrol in March/April period were US78 cpl and 101 cpl, respectively. Pre-tax and after tax Pacific-wide average WHOLESALE prices for Petrol in March/April period were US65 cpl and 89 cpl, respectively.
- Recently, there has been growing demand from a number of FICs seeking technical assistance and advice on fuel issues as soaring fuel prices increasingly penetrate into several other major sectors of the economy.
- *Duty and Taxes were not provided by Palau.*

# 3. REGIONAL ADO (DIESEL) PRICES

**Figure 06: Regional Retail ADO Prices (US cpl) - January/February**

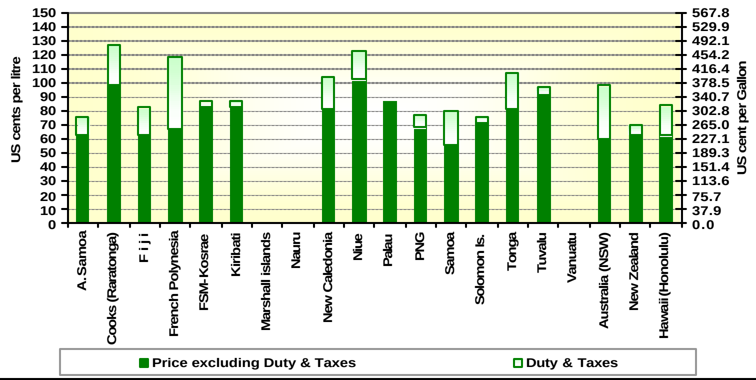
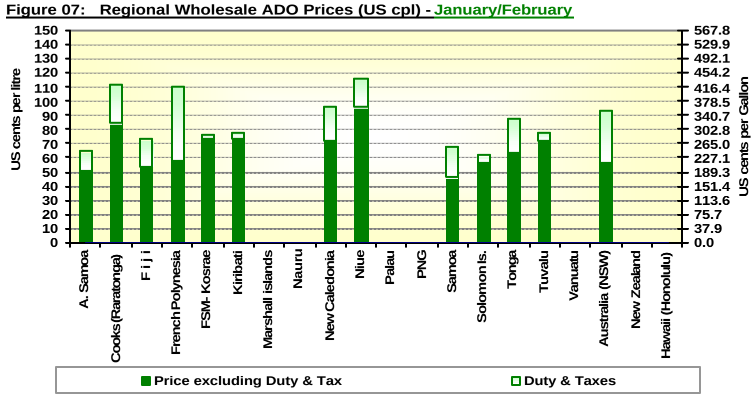



**Figure 07: Regional Wholesale ADO Prices (US cpl) - January/February**




## Key Observations – Jan/Feb Diesel Prices

- Pre-tax and after-tax Pacific-wide average RETAIL prices for Diesel in Jan/Feb period were US77 cpl and 93 cpl, respectively. Pre-tax and after tax Pacific-wide average WHOLESALE prices for Diesel in Jan/Feb period were US64 cpl and 82 cpl, respectively.
- Demand for petroleum based fuel in the FICs is expected to rise significantly in the next few years. To compete with this traditional fuel, attempts are made to put greater attention on developing alternative fuel sector.
- *Duty and Taxes were not provided by Palau.*

**Figure 08: Regional Retail ADO Prices (US cpl) - March/April**

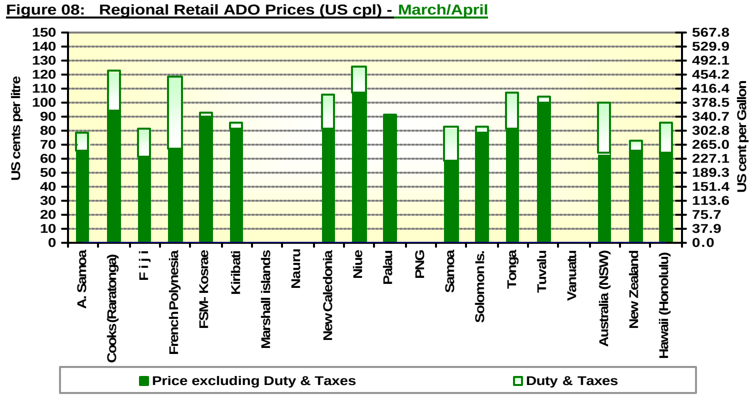
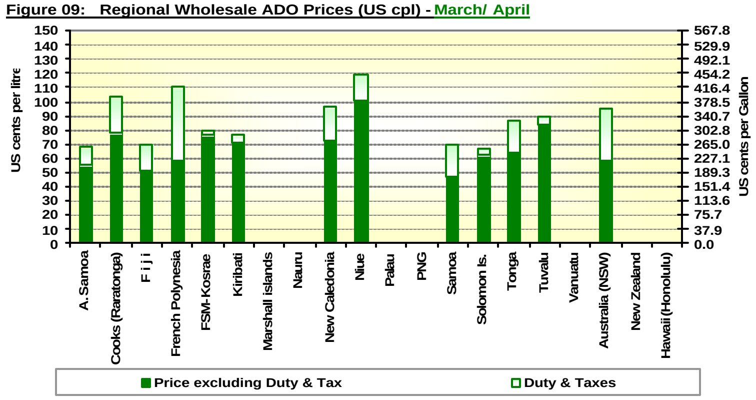



**Figure 09: Regional Wholesale ADO Prices (US cpl) - March/ April**




## Key Observations – Mar/Apr Diesel Prices

- Pre-tax and after-tax Pacific-wide average RETAIL prices for Diesel in March/April period were US79 cpl and 96 cpl, respectively. Pre-tax and after tax Pacific-wide average WHOLESALE prices for Diesel in March/April period were US66 cpl and 83 cpl, respectively.
- Concerns rising as to why most of the FICs continue to import 0.5%S diesel and not 0.05%S diesel.
- The MOPS data shows that the difference between the price of 0.5%S diesel and 0.05%S diesel range up to US 6 cents per liter.
- *Duty and Taxes were not provided by Palau.*

# 4. REGIONAL KEROSENE PRICES

**Figure 10: Regional Retail Kerosene Prices (US cpl) - January/February**

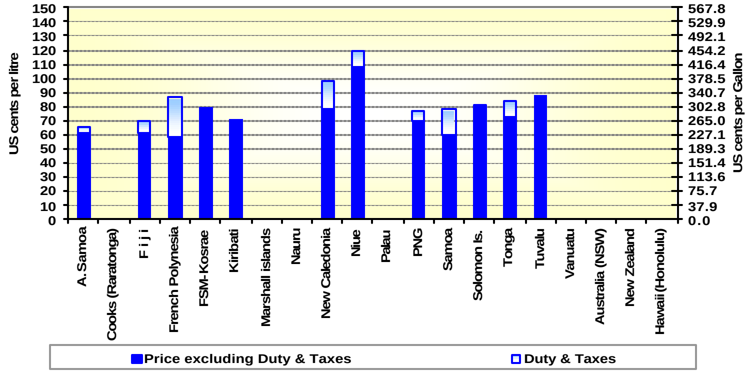
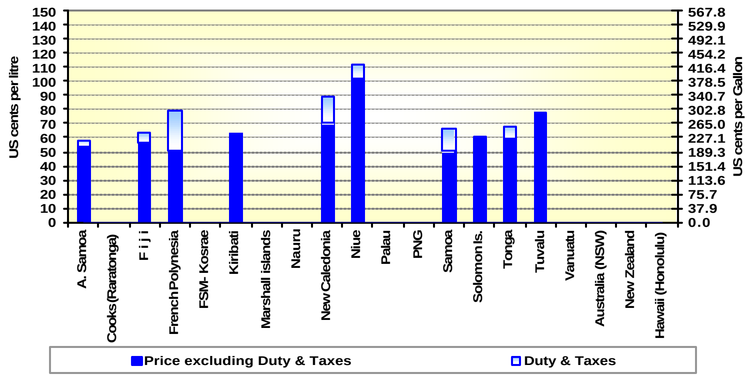



**Figure 11: Regional Retail Kerosene Prices (US cpl) - January/February**




### Key Observations – Jan/Feb Kerosene Prices

- Pre-tax and after-tax Pacific-wide average RETAIL prices for Kerosene in Jan/Feb period were US71 cpl and 80 cpl, respectively. Pre-tax and after tax Pacific-wide average WHOLESALE prices for Kerosene in Jan/Feb period were US 60 cpl and 70 cpl, respectively.
- *Duty and Taxes were not provided by Palau.*

**Figure 12: Regional Retail Kerosene Prices (US cpl) - March/April**

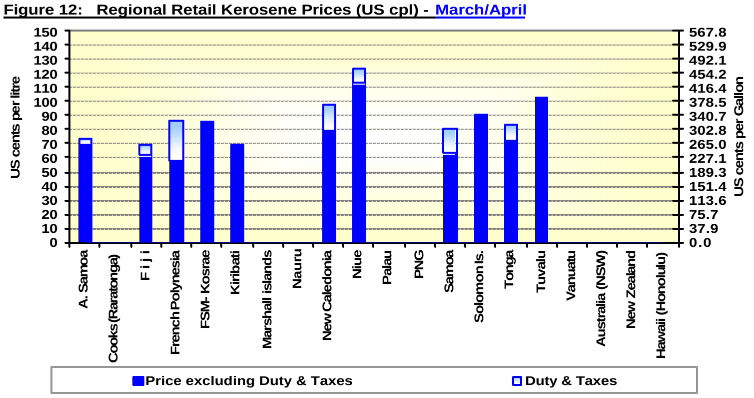
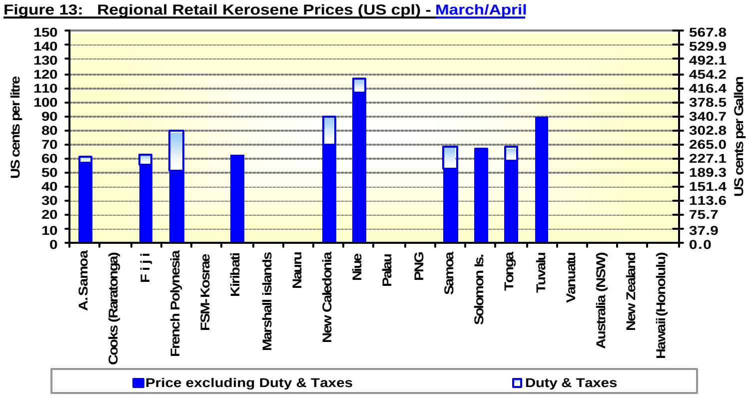



**Figure 13: Regional Retail Kerosene Prices (US cpl) - March/April**




### Key Observations – Mar/Apr Kerosene Prices

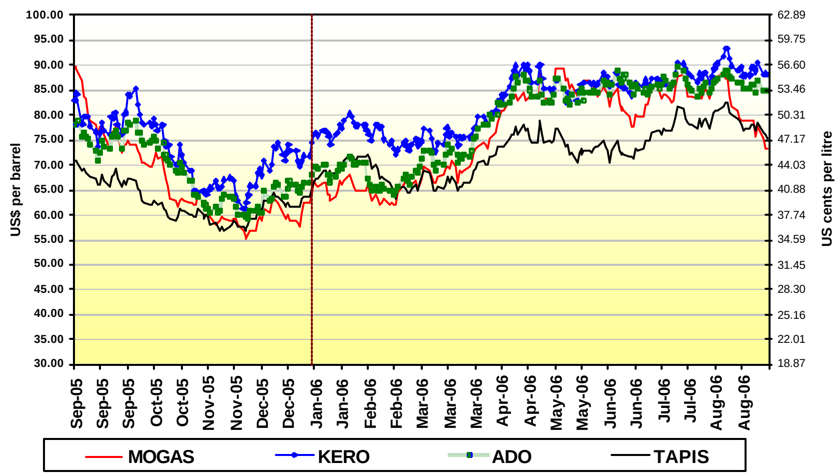
- Pre-tax and after-tax Pacific-wide average RETAIL prices for Kerosene in March/April period were US75 cpl and 84 cpl, respectively. Pre-tax and after tax Pacific-wide average WHOLESALE prices for Kerosene in March/April period were US63 cpl and 72 cpl, respectively.
- *Duty and Taxes were not available from Palau, Kiribati and Tuvalu.*

## 5. MOPS: Singapore Fuel Price Update (Sep 2005– Aug 2006)

Over the past twelve months, significant price movements were observed in the global fuel market. These swings were driven by the demand-supply balance, geopolitical pressure, and weather. The Asia-Pacific benchmark Tapis crude oil price continued to be extremely volatile throughout 2006, particularly in the second and third quarter hovering at around US$75/bbl mark. The spread between crude and refined product prices grew overtime reflecting tightness in the global refining capacity.

August 2006 began with a surge in and ended with rapidly falling oil prices. The Tapis crude oil price reached the all-time high of US$82/bbl on 9th August before falling to US$75/bbl. The hike in oil prices during the 2nd quarter of 2006 was attributed to concerns over supply disruptions in Nigeria, Iraq and Venezuela. Uncertainties over the refining industries ability to supply quantities of stricter specification fuels as a result of Government policies remains a concern, and can only place an upwards pressure on the refiners margins.

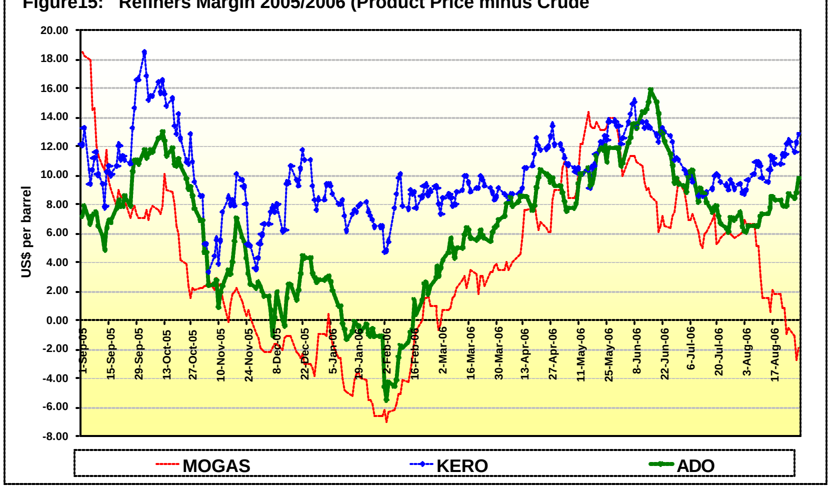
**Figure 14: Mean of Platts Singapore Vs Tapis Crude (2005/2006)**




Rising levels of geo-political risks and low levels of spare crude output capacity coupled with the threat of another disruptive hurricane to strike in the U S supported the price hikes in the market. In July to the first half of August both the crude oil and petroleum product prices increased rapidly to record the highest peak in history. The surge in prices were due to increasing consumption during the summer driving season, Israel and Lebanon war, Iran nuclear standoff, strike threats by Nigerian oil workers union, and the partial supply shutdown at the Prudhoe Bay in Alaska due to pipeline corrosion. As illustrated in the chart above, gasoline prices started to tumble with crude prices as summer season ended while diesel and kerosene prices staying high reflecting increasing demands.

The difference in price between the Tapis crude oil and Singapore refined product is known as refiners' margin. During the past twelve months refiners' margins were robust, particularly for kerosene which touched above US$18/bbl and stayed above US$2 mark throughout the period. The refiners' margin for Mogas (gasoline) and ADO (diesel) followed similar trends throughout the period. Due to a substantial build-up of American inventories and a reduced demand, gasoline prices have significantly dropped in August 2006 leading to negative refiners' margin.

**Figure15: Refiners Margin 2005/2006 (Product Price minus Crude**




Even though crude oil prices have started to fall rapidly in August, some analysts believe that this may not last long. This is taken as an error correction period as some of the speculations that have been keeping oil prices high in the past have either weakened or disappeared. Hence, it is expected that the Tapis crude oil price would fall to around US$60/bbl by the end of this year before taking-up another upward path. .

# 6. GLOSSARY AND CONVERSIONS

## *ABBREVIATION AND DEFINITION OF KEY TERMS*

| | |
|---|---|
| ADO/Automotive Diesel | Gas oil 0.5% Sulphur max. |
| After-Tax Price | Price including Sales Tax and Duty |
| Entrepot | MR intermediate distribution point |
| FICs | Forum Island Countries, being members of the Pacific Islands Forum |
| FOB | Free on Board at supply point |
| IMA/PAS | Import Management Advisory/ Petroleum Advisory Services |
| LCT | Local Coastal Tanker, generally 1-5,000 Metric tonnes |
| Mogas | 92 RON ULP |
| MOPS | Mean of Platts Singapore |
| MR | Medium Range Tanker, generally 20-30,000 Metric Tonnes |
| Pacific-wide | All surveyed Pacific Island Countries (excluding Australia, New Zealand, and Hawaii). Just for this edition of the PFPM, Niue's prices were also excluded because of its exceptionally high fuel prices. |
| Pump Price | Refer to retail price |
| Pre-Tax Price | Price excluding Sales Tax and Duty |
| Retail price | Fuel price paid at retail outlets, also called Pump price. |
| RON | Research Octane Number |
| Spot prices | Product Market (not restricted to fuel) Price traded on any given day. |
| Tax | In this context, Tax is the Sales Tax charged on fuel by the government. |
| ULP | Unleaded Petrol |
| US cpl | US cents per litre |
| HFO | Heavy Fuel Oil - low -grade fuel primarily used in industrial boilers and other direct source heating applications |

## *CONVERSIONS*

| | |
|---|---|
| Litres/USG | 3.785 |
| Litres/BBL | 159 |
| USG/BBL | 42 |

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## 7. SUPPLEMENT: (i) Opportunities from Rising Oil Prices

***The 2006 – 2008 roadmap to implement the Pacific Plan, has specifically made reference to the implementation of the Pacific Islands Energy Policy and associated Strategic Action Plan to provide available, reliable, affordable, and environmentally sound energy for the sustainable development of all Pacific island communities; and the development of proposals or strategies for the bulk purchasing, storage and distribution of key import commodities, including petroleum.***

The latter has been a key topic of discussion in regional forums including the recent CSD14 process, with progress made in completing a cost benefit analysis on bulk purchasing, storage and distribution of petroleum products. As in any other Small Island Developing States, the Pacific Islands continue to take the brunt of increasing oil prices. These have prompted many Pacific Island Governments to seriously consider alternatives such as solar, wind, hydro, biofuels (coconut oil) and LPG, and energy efficient measures to reduce fuel (oil) consumption.

The increasing oil prices however have been a welcoming trend by Papua New Guinea, raising their oil export earnings to US$560 million mark and expectations of an increase in tax and royalty receipts. The rest of the region on the other hand should pursue opportunities arising from the increasing oil prices and embark on conventional fuel-efficient technologies, alternate fuel possibilities and increased energy-efficient user attitudes. The usual norm is that consumers tend to demand for quick-fix solutions such as the call for respective Governments to reduce fiscal duty on imported petroleum products.

In the electricity sector, there are opportunities in improving efficiency in the supply side as well as the demand side. Activities in these areas have been constrained by many factors ranging from the lack of energy-efficient technologies, the non-supportive policies and inadequate awareness and educational programmes. There is also the lack of real commitment by both utilities and consumers towards energy efficiency programmes which is a major barrier to realizing its potential benefits to the region.

The transport sector by weighted average, accounts for about 50% of the region's use of petroleum products and is a sector at its current energy-inefficient state due to past neglect. Despite the current high fuel costs there is an increasing trend of vehicle ownership and is attributed to improved earning capacity of the working class (middle & upper) and affordability of vehicles, particularly cheap second-hand cars.

Furthermore, the Pacific Islands Renewable Energy Project study in 2004 revealed that, at a business as usual scenario for seven small Pacific island countries[1], an average of 56% (at the range of 30 – 83%) potential savings can be realised through energy efficiency measures.

In simple terms, energy efficiency and conservation measures are the most logical direction the region can immediately consider to cushion the adverse impacts of rising oil prices. It is therefore imperative that respective Pacific Island Governments through appropriate policies and incentives take-up the challenges of such opportunities arising from increasing oil prices.

Rupeni Mario, Energy Adviser,
Community Lifelines Programme
SOPAC, Suva
Fiji Islands

Please note that the views expressed in this article do not necessarily be that of SOPAC.

[1] FSM, RMI, Nauru, Niue, Palau, Tokelau & Tuvalu.