

P5 PETROCHEMICALS

PETROL AND DIESEL



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Executive briefing: explanation for the petrol price increase

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Since the beginning of 2007, the petrol price in South Africa has risen by about 50%. This note sets out the mechanism used to determine fuel prices in South Africa and the reasons for the recent price increases.

Pricing mechanism

The underlying principle used by the Department of Minerals and Energy in setting the price of petrol in South Africa is import parity. What this simply means is that the price is set based on what it would have cost if the product had been imported from the major export refinery in Singapore, the Arabian Gulf and the Mediterranean. Petrol is categorised as a commodity product and therefore there is very little difference between petrol of the same grade across the globe. Where competition exists, prices before taxes and levies are also very similar. Basing the local price on the import alternative or import parity price means local prices reflect what is happening in global markets for petroleum products.

Price increase explanation

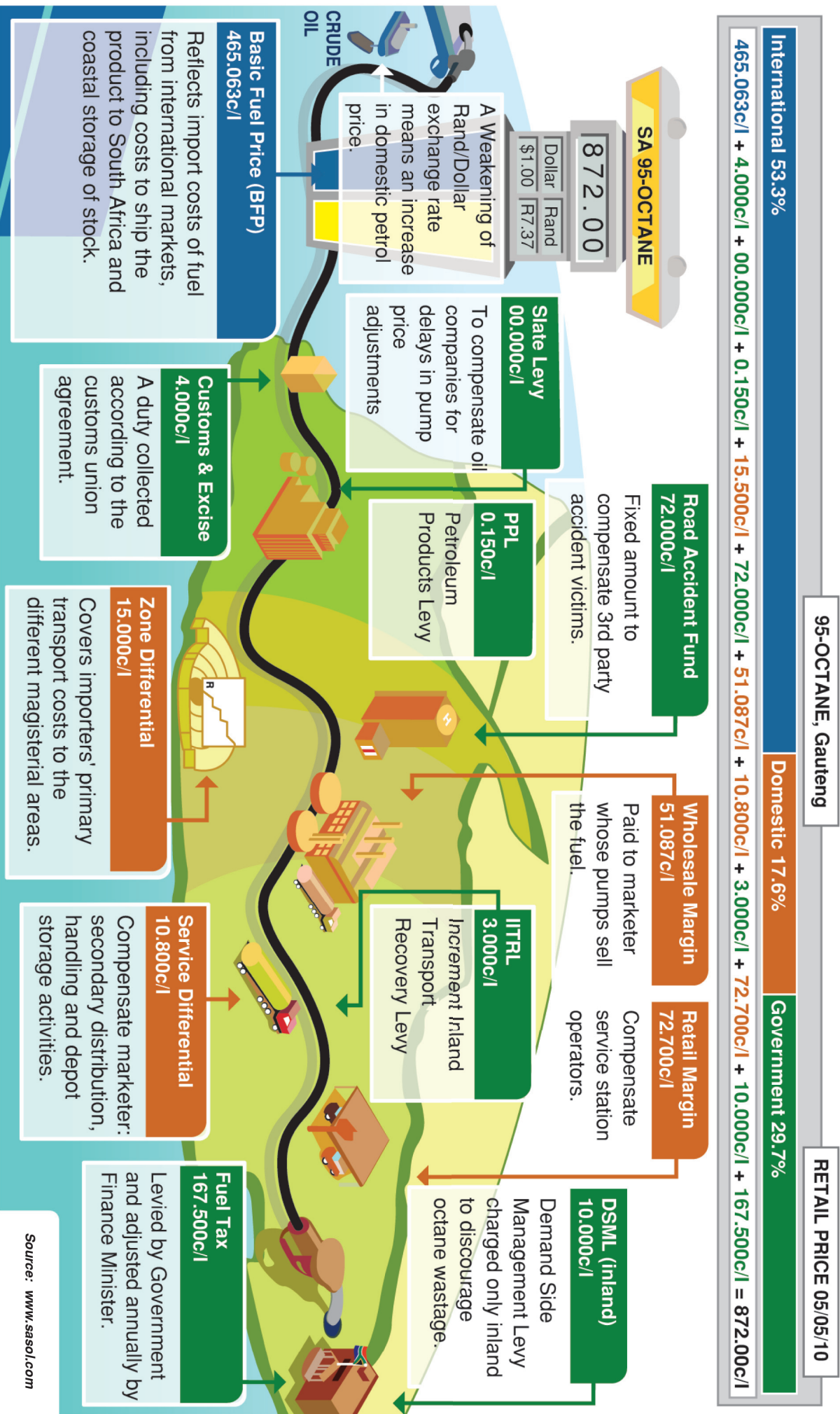
While there have been significant increases in the dealer profit margin and taxes and levies, the principle cause of the higher price for petrol has been the higher cost of product due to rising international product prices and deterioration in the Rand/US\$ exchange rate.

Why is diesel so much more expensive than petrol?

Although diesel and petrol are produced together from the same refineries, they are very different products with different applications in the world economy. Typically, diesel is used in industries such as manufacturing, mining, heavy vehicle transport and as a heating fuel, although the use of diesel for private motorists is also growing. In contrast, petrol is used primarily by private motorists. Given their different uses, petrol and diesel have different demand patterns and, therefore, different prices. In economics, price is set at the point where demand and supply meet, and therefore, the higher demand for diesel has pushed up its price across the globe. It doesn't cost more to produce diesel, but if the price didn't rise there would be a shortage in the global economy.

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PETROL PRICING IN SOUTH AFRICA



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