Statement by the Ministers in the Economic Cluster on the Increasing Fuel Prices in South Africa

06 July 2018

At the beginning of July this year fuel prices hit record highs in our country and this has caused a lot of concern on the part of the motorists and other fuel small and large consumers specifically, but also society as a whole. Government remains gravely concerned about the negative impact that global geopolitical developments including trade spats between the US and its major trading partners are having on the currencies of emerging markets including the Rand/Dollar exchange rate.

Government wishes to remind all South Africans that the reality for non-oil producing countries like ours is that we have to accept the price of crude oil determined in the international market. The main player in the determination of oil pricing internationally is the Organisation for Petroleum Exporting Countries (OPEC). Together with the Russian Federation, OPEC decided to cut oil production in order to eliminate an oil glut in the market, which was keeping prices of crude oil very low. In January 2016 a barrel of crude oil cost less than $30 and last month the average Brent Crude oil price was $77per barrel - more than double. In effect the windfall of low fuel prices enjoyed in March 2016 has been eliminated by the production cuts determined by OPEC. Since January 2017 OPEC has removed almost 2% of the world's oil production from the international market with the intended consequence of a reduction in global crude oil inventories, resulting in higher crude oil prices.

Added to the OPEC crude oil supply reductions is the continuing political turmoil in Venezuela which has led to the near collapse of oil production in South America's most prolific producer of crude oil. Venezuelan refineries are also not able to produce as much petroleum products placing a further strain on the global demand for refined products.

During the month of May 2018, the United States of America decided to pull out of the Joint Comprehensive Programme Of Action (JCPOA), which is an agreement between the Permanent members of the Security Council plus Germany on the one side and the Islamic Republic of Iran on the other. This was followed by an immediate imposition of sanctions on oil export from Iran. Thus, the oil market is having to price-in the potential loss of more than 2 million barrels per day of Iranian exports from the International market. As a result of the unilateral action of the United States of America, countries that are importing from Iran have 180 days to wind down all Iranian imports if they are to avoid US sanctions. South African based oil companies currently do not import from Iran.

This time of the year (May till September) represents the summer season in the Northern hemisphere and is popularly known as the driving season especially in the United States of America. The demand on crude oil is usually higher during this period as people in this part of the world go on summer vacations. This increased demand for crude oil also has the impact of increasing the crude oil price until enough summer petrol stocks have been manufactured.

South African refined petroleum product prices are based on international bench-mark refineries. The level of international refined petroleum product prices at these international refineries are not only a factor of the price of crude oil as an input cost to refine petroleum products but, are also affected by geo-political events, international demand and supply of refined petroleum products, natural disasters.

Internationally crude oil and refined petroleum products are quoted in USD/barrel or by the ton. The USD/ SA Rand exchange rate needs to be applied to convert refined petroleum product prices from USD per barrel or by the ton to South African cents per litre. The main contributor to the current level of fuel prices in South Africa culminates from the sharp increases in international crude oil and refined petroleum product prices.

Government has noted with concern the growing debate about the need to tamper with the Fuel Levy and the Road Accident Fund. Government wishes to remind stakeholders that all economies of our size that do not produce oil, levy a tax on fuel as one of the most efficient instrument of raising revenue for governments worldwide - including South Africa. This is revenue that is used for amongst others for the compensation of victims of vehicle accidents and generally for the improvement of road infrastructure and other societal needs. And it is for this reason that a direct comparison of fuel pricing within the region is not possible, as our developmental taxation system is not the same as those of our regional counterparts.

Interventions by Government

On 5 July 2018 His Excellency President Cyril Ramaphosa convened a special meeting of Ministers in the Economic cluster to discuss the current fuel prices and deliberate on interventions that government can make. The meeting resolved that the mandate of the VAT commission could be expanded to include the fuel price issues. It was also decided that government should communicate more to explain the challenges to society. The government wishes to call upon all sectors to be circumspect prior to increasing prices as a result of the prevailing fuel prices. In particular government calls upon retailers and food processers take into consideration the negative impact increases to their products may have on the most vulnerable. The cyclical nature of these fuel price increases should be considered. The Ministers in the Economic Cluster also resolved to engage various stakeholders including those in the transport sector, civil society organisations and social partners in NEDLAC as a matter of urgency with a view of finding a common approach to this challenge in the best interest of the country.

From a diplomatic perspective government will sustain engagement with the oil producing countries to call upon them to moderate their stance on oil production cuts as this hurts the global economic growth prospects, and in particular is detrimental to all developing countries. Saudi Arabia and the Russian Federation, with the latter being the top Non-OPEC oil producer, are already supportive of a gradual increase in production of crude oil. In addition the Minister of Energy is to intensify engagements with counterparts in oil producing countries with a view of obtaining favourable terms for crude oil allocations for South Africa.

Consumers of fuel are advised to use all possible opportunities within our personal powers to contain costs. Among the actions that we can take is to moderate our driving habits as motorists. Ensure correct tyre pressure, balancing and wheel alignment. Plan and combine of trips to avoid unnecessary journeys. Drive at lower than the speed limit. All these actions will help you to save fuel and contain costs.

Going forward on a policy level, South Africa needs to ensure that the framework for the exploration and production of oil and gas is finalised through the Minerals and Petroleum Resources Development Act (MPRDA) in the short term. This will encourage oil and gas exploration on the territorial waters of the country, which in the long run will benefit oil and gas consumers.