

## The 100 Dollar Question

As the price of crude oil (Brent) exceeds 100 USD per barrel, this paper discusses suitable steps to reform fuel pricing: It introduces the three dimensions of fuel pricing, presents recommendations for 3 categories of countries and provides an overview of international practices.

### The Three Dimensions of Fuel Pricing

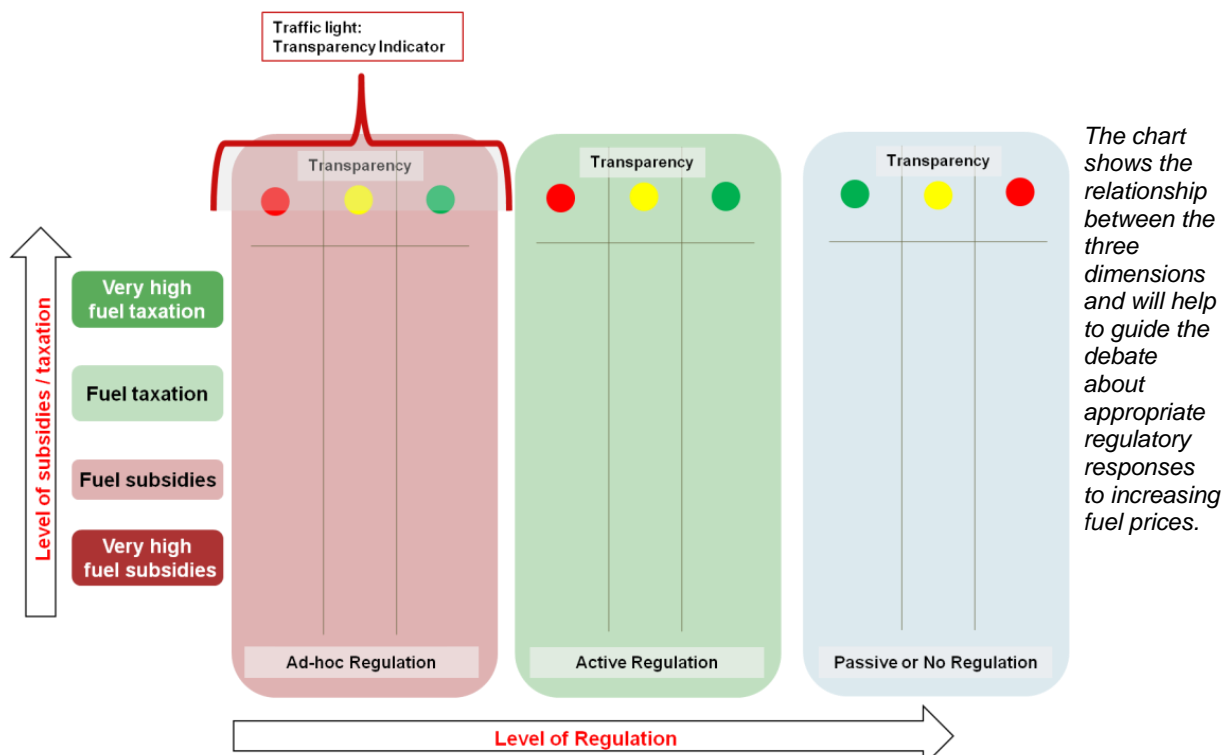
Basically, as **first dimension** of fuel pricing, three categories of fuel price regulation can be distinguished:

	<b>Description</b>	<b>Example</b>
<b>Ad-hoc regulation</b>	<i>Unsystematic price changes in long intervals or constant prices over several years</i>	<i>Saudi Arabia, Bolivia, Qatar</i>
<b>Active regulation</b>	<i>Prices are regulated and reviewed based on pre-determined criteria and/or formulae as well as often in regular intervals (weekly, monthly)</i>	<i>South Africa, China, Vietnam</i>
<b>Passive or no regulation</b>	<i>Regulation is limited to level of taxes and framework conditions (e.g. fuel qualities)</i>	<i>Germany, USA</i>

Further, the **second dimension** of fuel pricing refers to the level of taxation/subsidies:

- Very high subsidies (retail price is below level of crude oil price)
- Subsidies (above price of crude oil but below price in US)
- Taxation (above price of US but below price of cheapest EU-27 country)
- High Taxation (above price level of cheapest EU-27 country)

The **third dimension** of fuel pricing is transparency, i.e. the question how transparent the composition of prices as well as the regulation of fuel prices are.



Based on the current status of fuel price regulation, the following measures should be considered in order to improve fuel pricing and regulation:

#### **Countries with passive or no regulation:**

- Increase transparency and limit daily fluctuations
- Describe in positive way, what government is not doing (no interference with free market, wasting public resources for fuel subsidies)
- Highlight how taxes are used to limit dependence on fossil fuels, e.g. investments in public transport, research in fuel efficiency, for social benefits
- Application of anti-trust measures to mitigate potential profiteering
- Consider the publication of indicative maximum prices, the in-detail presentation of the price break-up as well as full transparency in terms of the costs of input products and margins

#### **Countries with regular price reviews or other forms of active regulation**

- Provide maximum transparency on review mechanism and price composition and / or to intensify outreach efforts
- Review frequency of price adjustments (high fluctuations may justify more frequent adjustments to minimize level of increases)
- Continue regular adjustment of prices based on changes of input parameters. Temporary suspensions of regular price adjustments have proven difficult to implement as subsequent price increases might be substantial and the costs to the budget are potentially enormous
- Show how taxes are used to limit dependence on fossil fuels, e.g. investments in public transport, research in fuel efficiency, social benefits
- These countries may consider forgoing windfall tax profits that are collected through taxes based on percentage values (e.g. VAT)

#### **Countries with ad-hoc pricing**

- Price increases without careful preparation and no or limited transparency have proven difficult to implement (cf Bolivia in December 2010)
- Even if subsidies are maintained, these countries need to start introducing regular (monthly) price adjustments
- Involve all stakeholders in consultation process on introduction of rational price adjustment mechanism. Introduction of price increase is easier when crude oil prices are temporarily falling (allowing for a price reduction as first application of price mechanism)
- Reform efforts need to be built on a long-term (5-10 years) perspective and should start with comprehensive transparency campaigns
- Transparency is the crucial prerequisite for all subsequent steps. The reform timeline must be outlined including information on:
  1. Government plans and the motivation behind them.
  2. the phasing out of subsidies by a given date "201X" and the price increase intervals
  3. the introduction of taxes, if necessary with ear-marking (e.g. for transport projects, social safety nets, etc.)

Specifically the follow instruments can be applied:

GRED MINYAK KENDERAAN	HARGA PAM KOMERSIAL (RM/LITER) (24 MEI 2010)	HARGA PAM BIASA (RM/LITER)
Premium 97	0.98	0.53
Super 92	0.92	0.519
Regular 85	0.86	0.36
Diesel	0.91	0.31

### Brunei Darussalam: Unsubsidized prices on Earth Day

On the occasion of Earth Day 2010, Brunei Darussalam sold fuel at unsubsidized prices for one day. In this way, the amount of subsidy per liter has been made public. The leaflet (left) shows in the right column the normal (subsidized) sales price, the left column shows the unsubsidized levels.

Source:

[http://www.energy.gov.bn/index.php?option=com\\_content&view=article&id=245:fuel-prices-without-subsidy-on-may-24&catid=37:news&Itemid=70](http://www.energy.gov.bn/index.php?option=com_content&view=article&id=245:fuel-prices-without-subsidy-on-may-24&catid=37:news&Itemid=70)

Picture from Brunei Post

	\$ MT	Naira/Liter
C + F	896.58	101.83
Lightening Expenses (SVH)	31.13	3.54
NPA	5.25	0.60
Financing (SVH)	18.44	2.09
Jetty Depot Thru' Put Charge	7.04	0.80
Storage Charge	26.41	3.00
<b>Landing Cost</b>	<b>994.85</b>	<b>112.99</b>
<b>Distribution Margins</b>		
Retailers	40.50	4.60
Transporters	24.21	2.75
Dealers	15.41	1.75
Bridging Fund + MTA	34.78	3.95
Admin Charge	1.32	0.15
<b>Total</b>	<b>116.22</b>	<b>13.20</b>
<b>Total Cost</b>	<b>1,111.07</b>	<b>126.19</b>
**Ex-Depot	492.17	55.90
<b>Under/Over Recovery</b>		<b>(61.19)</b>
Taxes		

### Nigeria: Information on subsidy level at webpage (country with ad-hoc regulation)

The Nigerian Petroleum Products Pricing Regulatory Agency (PPPRA) regularly publishes information on the level of prices as well as the price composition. As the price of PMS (gasoline) is presently capped at 65 Naira, the calculation identifies an under-recovery (subsidy).

More on: <http://www.pppra-nigeria.org/pricingtemplate.asp>

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petroleum sources

Application Status: fuel prices January 2011

- Liquid Fuels
- Latest Fuel Prices
- Fuel Price Structure
- Empowerment
- Central Energy Fund
- PASA
- PetroSA
- Sasol
- Petrol Price Media Release
- Petrol Price Documents
- Petrol Price Archive

- Petrol Regulation
- LPG Regulation
- Diesel Wholesale price
- Illuminating Paraffin Wholesale price
- Basic Fuel Price
- Breakdown of fuel Prices
- Diesel Price Margins
- Fuel Price History
- Maximum Retail Price for LPGAS Coast
- Maximum Retail Price for LPGAS Gauteng
- Petrol Price Margin

### South Africa: Regulation of gasoline prices and full information on webpage (country with rational regulation)

The petrol retail price is regulated by government, and changed every month on the first Wednesday of the month. The wholesale price of diesel is regulated, but not the retail price. The calculation of the new price is done by Central Energy Fund (CEF) on behalf of the Department of Energy (DME). The petrol pump price is composed of a number of price elements and these can be divided into international- and domestic elements. All elements are explained on the webpage.

More on: [http://www.energy.gov.za/files/petroleum\\_frame.html](http://www.energy.gov.za/files/petroleum_frame.html)

U.S. Energy Information Administration  
Independent Statistics and Analysis

U.S. Data

- Summary
- Weekly Supply Estimates
- U.S. Crude Oil Supply & Demand
- more Summary data
- Prices
- Weekly Retail Gasoline and Diesel Prices
- Spot Prices
- World Crude Oil Prices
- more Price data
- Crude Reserves & Production

Reports

- Oil, Work in Progress
- Weekly Petroleum Status Report
- Gasoline & Diesel Fuel Update
- U.S. Retail Gasoline Prices
- Weekly Retail On-Highway Diesel Prices
- Monthly Oil and Energy Update
- more Petroleum Reports

### United States: Detailed tracking of fuel price data (country with no regulation)

The webpage of the US Energy Information Administration offers a host of information on energy prices, including weekly price statistics for various regions, historic data and analytical information.

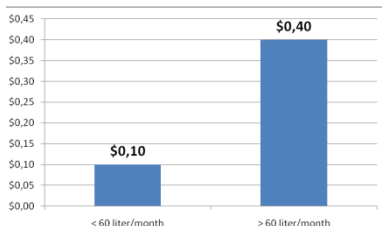
More on: <http://www.eia.gov/>



### France: National Fuel Price Webpage

Retailers are requested to post prices for gasoline and other fuels at this webpage, which is administrated by the Ministry of Economy and Industry. Users can receive updates on price change at their favorite stations.

More on: <http://www.prix-carburants.gouv.fr/index.php>



### Iran: Two-tier pricing of transport fuels

In recent years, Iran has sold per capita a certain amount of fuel (60 liters / month) at very low price, and any purchase above this was sold at four times the price.

The instrument helped to accustom the population to higher price levels as well as to protect low-income groups from high prices.

In December 2010, prices were raised substantially.



### Western Australia: Fuel Watch

FuelWatch has been designed to stop intra-day fuel price variations and to track/monitor fuel prices. Retailers must announce the retail price for each fuel they sell by 2pm and stick to the notified price from 6am next day for 24 hours.

More on: <http://www.fuelwatch.wa.gov.au/>

CALCULATED MAXIMUM PRICES FOR NOVEMBER 2010.

	PMS keu/lr	KERO keu/lr	AGO keu/lr
Average weighted cost Nov-2010 (Cia)	49.16	53.02	51.55
Exc. KPLR Handicap at 5%(Corp. adj.)	2.46	2.65	2.58
KOSP Charges(I)	0.29	0.29	0.29
Taxes(T) & levies	28.95	2.65	19.74
TOTAL COST EX NAOMBASA(CU)	80.86	68.61	74.16
Transportation(K)	3.10	3.10	3.10
NBI Depot Costs	0.70	0.70	0.70
KPC Losses(lp)	0.21	0.17	0.19
Depot Losses(lf)	0.42	0.20	0.29
TOTAL COST EX NAIROBI	85.29	67.08	78.38
Wholesale margin(M)	6.00	6.00	6.00
MAX. WHOLESALE PRICE NAIROBI (PW)	91.29	73.08	84.38
Retail Margin(mr)	3.00	3.00	3.00
Local Delivery (L)	0.49	0.49	0.49
MAXIMUM RETAIL NAIROBI (PR)	94.78	76.57	87.87
Average Pump price on 10/11/2010	98	78	90

### Kenya: Recommended maximum prices

In response to escalating prices and based on provisions of Kenya's energy act, the ENERGY REGULATORY COMMISSION of Kenya has in November 2010 started to publish recommended maximum prices (including information on the composition of prices) in an effort to encourage competition in the market.

More on: <http://www.erc.go.ke/erc/Regulations/PRESS%20STATEMENT%20ON%20PETROLEUM%20PRICES%2024112010.pdf>

**Read more:****→ Data Preview 'International Fuel Prices' 2010/2011**

The 2010/11 edition of GIZ “International Fuel Prices” provides an overview of retail prices of gasoline and diesel in more than 170 countries. [giz2011-international-fuel-prices-2010-2011-data-preview.pdf](#), 0.66 MB (English)

**→ Fuel Price Reform in Bolivia**

The failure to increase prices for fossil fuels in Bolivia is an important case study of reform strategies for countries with low prices and ad-hoc pricing measures. Everything that could go wrong, went wrong in the implementation of the price hike in Bolivia in December 2010. This is a classic example for the extreme consequences of ad hoc price setting mechanisms. Our paper provides attached a brief evaluation of the failed reform attempt in Bolivia from our perspective.

[giz2011-fuel-price-reform-bolivia-december-2010.pdf](#), 0.24 MB (English)

## About us:

The **GIZ-International Fuel Prices Observatory** offers a 2-year international fuel prices survey, detailed information on prices of fossil fuels world-wide (dimensions price level, regulation and transparency) and advisory services on pricing. In addition, the necessary linkages to sustainable mobility and climate change are provided. More on: [www.gtz.de/fuelprices](http://www.gtz.de/fuelprices)

The GIZ International Fuel Prices Observatory is a long-time effort of GIZ (German International Cooperation) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) to provide decision-makers with data on fuel prices on a global scale.

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## For more information on our work, please visit:

- International Fuel Prices: [www.gtz.de/fuelprices](http://www.gtz.de/fuelprices)
- Sustainable Urban Transport including “Sustainable Transport: Sourcebook for Policy-makers in Developing Cities”: [www.sutp.org](http://www.sutp.org)
- GIZ Transport and Mobility: [www.gtz.de/transport](http://www.gtz.de/transport)
- Transport and Climate Change: [www.transport2012.org](http://www.transport2012.org)

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