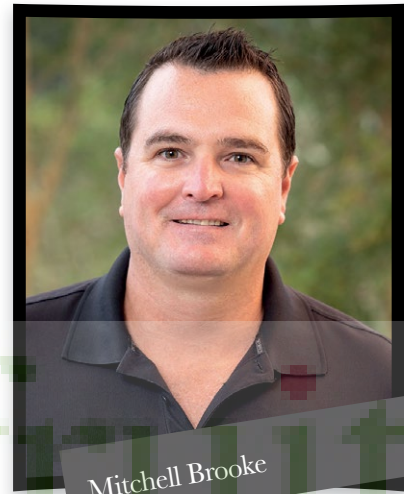


4 to 5 review

The diesel price – Reef

The current price of diesel has been a topic of discussion amongst many who hold varying opinions on the factors that have caused the price of (diesel) fuel to escalate to such high levels.

By Mitchell Brooke



Mitchell Brooke

As with any debate, sticking to the facts is key. So, let's explore the actual factors that are the driving components of the diesel price breakdown.

There are two main components that make up the diesel price composition.

International price influences

Basic Diesel Price (BDP), this component is essentially what it costs to procure diesel from overseas refineries (in rand value), shipping, landing and storage costs. This also includes price determination for oil procurement for local manufacture, which governs the price parameters. In June this year, the BDP increased to R16.08c p/l (70% of total diesel price), which was determined by the high international price of Brent Crude Oil. The latter averaged USD114 p/barrel, and given the weaker rand trading at an average of ZAR14/USD, the rand value of Brent Crude reached a peak of R1 715 p/barrel in May. An increase in the BDP is likely, in line with the increasing price of Brent Crude and the weakening ZAR/USD rate.

Domestic price influences. This component of the price composition has been an area of much debate. And the following factors are the main price components that influence the price of diesel (price p/l FY2022/23 / 10

year average % of total). Fuel Tax (R3.79c p/l / 23%). The Minister of Finance determines the level of the fuel tax levy included in the price of diesel. He approved a temporary reduction in the fuel tax by R1.49c to R2.30c p/l for the months of April - May this year, extended to 3 August. The fuel tax reduction will be suspended on 3 August and increased by R0.75c on 6 July, with a further increase of R0.75c on 3 August, Road Accident Fund (R2.18c p/l / 13%). A Road Accident Fund levy is applicable on petrol and diesel. And the size of this levy is also determined by the Minister of Finance. The income generated from this levy is used to compensate third party victims of motor vehicle accidents. And a wholesale margin (R0.80c p/l / 5.4%) allocated to recuperate funds for marketing of petroleum activities. There's also transport cost (R0.68c p/l / 3.5%) to recuperate the

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cost of transporting diesel fuel from port of manufacture to inland storage depots. The slate levy (R0.53c p/l / 0.23%) is a static recovery mechanism for daily adjustments in the price of fuel. Whereas the pipeline levy (R0.33c p/l / 0.3%) is recuperated to fund the state Petroleum Pipeline Regulator. Then there are secondary storage (R0.31c p/l / 1.6%), and distribution costs (R0.18c p/l / 0.8%) to transport fuel to retailers.

Figure 1 highlights the historical trend of the cost composition for the diesel fuel price in SA. The trend analysis is from June 2007 to June 2022, reflected monthly. One can see that at this time the international price influencers such as the price of crude oil and the weakening rand value against the US Dollar have caused a significant spike in the local diesel price.

In summary, the overall price of diesel is

currently mostly influenced by international price factors like the weaker rand value against the US Dollar, and the increased price of Brent Crude Oil. Domestic price factors like the fuel tax levy and Road Accident Fund levy make up the higher proportion of costs; these have increased incrementally annually, at an

average rate of 6 - 7%. And since the retail price of diesel is not regulated, diesel can be purchased at fuel stations or from suppliers at varying prices above the wholesale price.

Producers are encouraged to tap into the diesel tax relief mechanisms offered for agricultural production. ▮

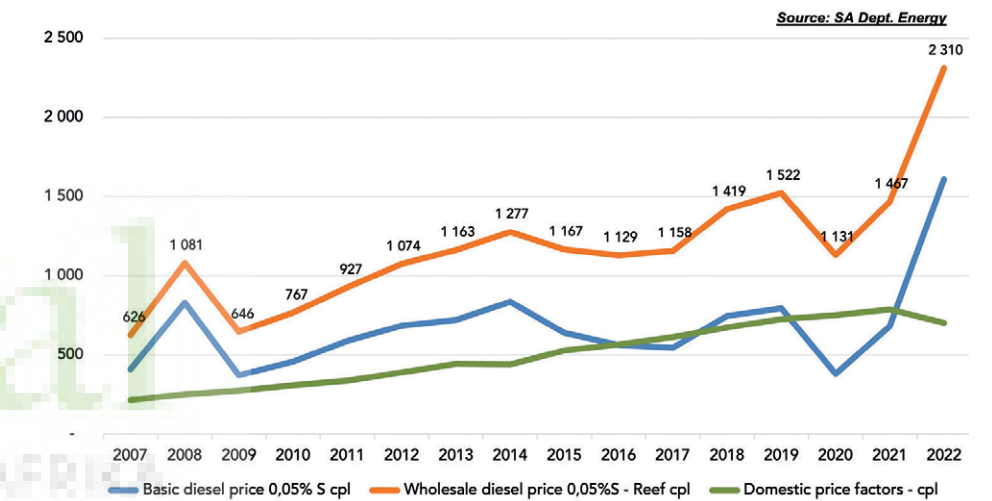


Figure 1. Composition cost of the diesel price rate from June 2007 - 2022

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