

## **POLICY ISSUES**

**22 September 2000**

### **Limit petrol increases**

Diesel looks likely to go up by at least 35c/litre in October - the amount of price under-recovery at the pumps. The cost is determined by various factors, of which world crude prices and the rand-dollar exchange rate are perhaps most important.

Above all, though, profit margins for local distributors and retailers are fixed to guarantee them a minimum return on their investments. No other business in SA has the privilege of getting a fixed price for its products and a guaranteed minimum return on capital.

The system served SA well in the past six years. And it is certainly an improvement on the one it replaced. Fuel has always been available, and price increases have been small and manageable.

But the system bears no relation to supply and demand. It ignores market forces and places an extra cost burden on the economy.

The principle of price fixing harks back to the agricultural control boards where the bigger the surplus, the more local prices rose to subsidise loss-making exports.

This is what happened in the first six months of the year. About 550m litres of diesel - 20% of SA's production - were exported in the first six months at under 120c/litre. Yet the local price is well on its way to 350c/litre.

Considering nearly half of its liquid fuel requirements come from its own resources, which were developed largely using taxpayers' money, the pending 35c/litre increase looks all the more unacceptable.

The mess can be fixed only by deregulating the industry and allowing free market forces to take effect. The minister's argument that job losses would result and therefore regulation has to stay simply isn't good enough.

As with any restructuring, job losses are unavoidable - but so are guarantees of higher productivity, growth, and the job opportunities elsewhere in the economy. After all, this is the logic behind Government's restructuring of public corporations. What applies to them also holds for fuel and its pricing.

If the current oil crises make SA change to a more rational system of fuel pricing, some good will have come of it.

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