FUELtrac
independent solutions
Monthly, independent, fuel industry newsletter
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Crude Oil Prices Fall Despite Geopolitical Risks

Despite continuing geopolitical tensions in Iraq, Libya and Ukraine these events have failed so far to reverse the significant falls of approximately 10% in the prices of two of the key Crude Oils; West Texas Intermediate (WTI) and Brent.

The initial price shocks related to these events first appeared in June 2014 however, these have now abated given there has been no direct threat to oil production principally from the large oil fields in Southern Iraq.

Of more significance has been the drop in global oil demand with consumption next year estimated at 92.96 million barrels a day down from previous forecasts above the +93.1 mbpd level.

Furthermore on the supply side US crude production will reach 8.46 million barrels a day this year and 9.28 million in 2015, the highest annual average since 1972, according to EIA (Energy Information Administration).

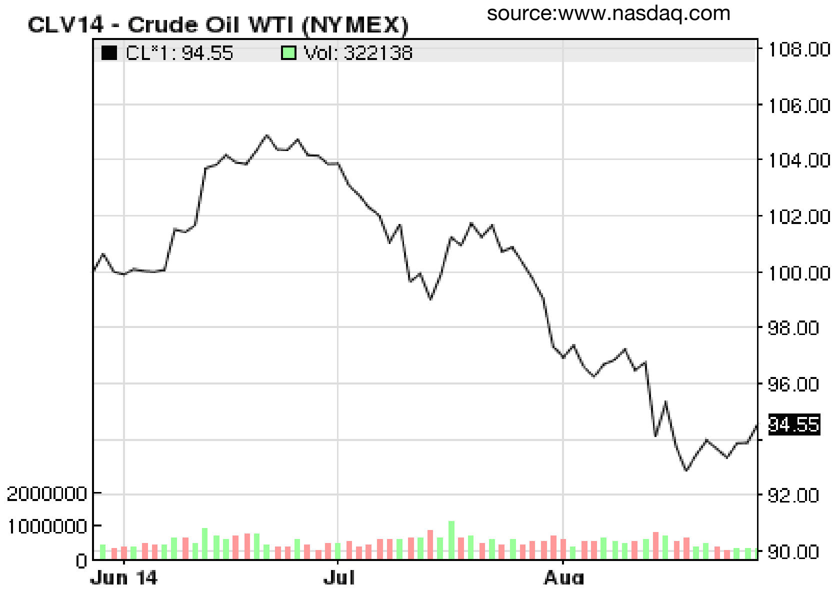
Most of the global supply growth is "coming from countries outside of the Organisation of the Petroleum Exporting Countries", the EIA said in the report. "The United States and Canada account for much of this growth".

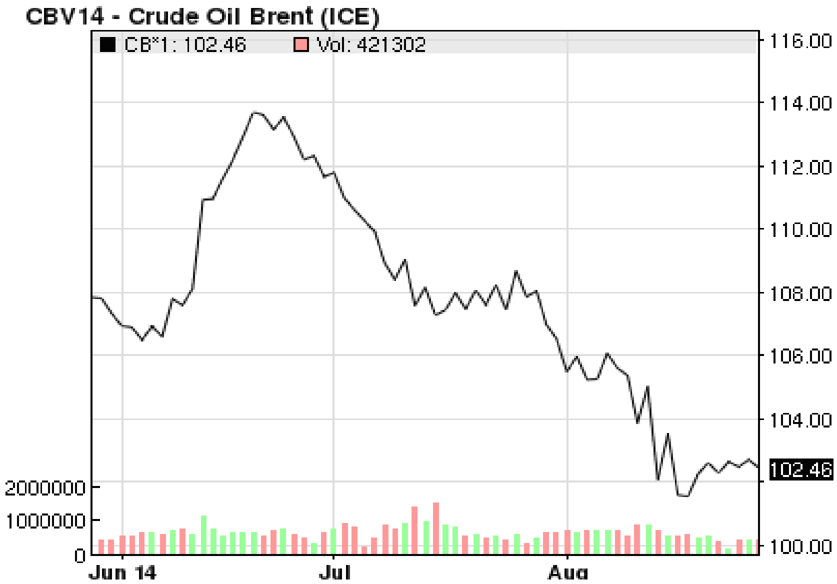
The share of total US petroleum and other liquids consumption met by net imports fell from 60% in 2005 to an average of 33% last year. The amount will drop to 22% in 2015, the lowest level since 1970, the EIA said.

The combination of lower than forecast demand growth together with surging domestic US crude oil production has been the catalyst for the drop in prices for both WTI and Brent that we have seen through July and August 2014.

source: www.eia.gov

source:www.nasdaq.com





International Crude Oil Prices Fall - What has happened to Local Prices?

With the significant falls in both West Texas Intermediate and particularly with Brent Crude what impact should these price drops have had locally in Australia ?

Australia operates on a system called Import Parity pricing which sees locally produced crudes "priced" in line with International crude oil prices again principally Brent Crude and this then becomes the input cost into local refineries.

The refineries produce a wide range of derivative products; fuel oils, lubricants, motor spirits, aviation fuel, diesel and LPG.

Therefore in the period since late June 2014 to August 2014 we should have seen significant falls in local wholesale prices of these products.

Whether this in fact happens is entirely dependent on the visibility and transparency of these wholesale prices and to some extent who's watching and can track these movements.

Lubricants, particularly those sold via retail channels have no price transparency and if any adjustment is made to lubricant list (wholesale) prices the difference is normally kept as a higher retail margin.

Only those lubricant buyers on transparent price escalation formulae will see any benefit from reductions in crude oil prices.

Aviation fuel buyers on spot price contracts or term contracts with price variation formulae linked to Brent crude should see a reduction in their fuel price.

To date however, flying "consumers" using the airlines supposedly with transparent "fuel surcharges" in their airfares have not received any benefit as no announcements have been made to reduce these fuel surcharges despite the reductions that have occurred in the Brent crude marker price.

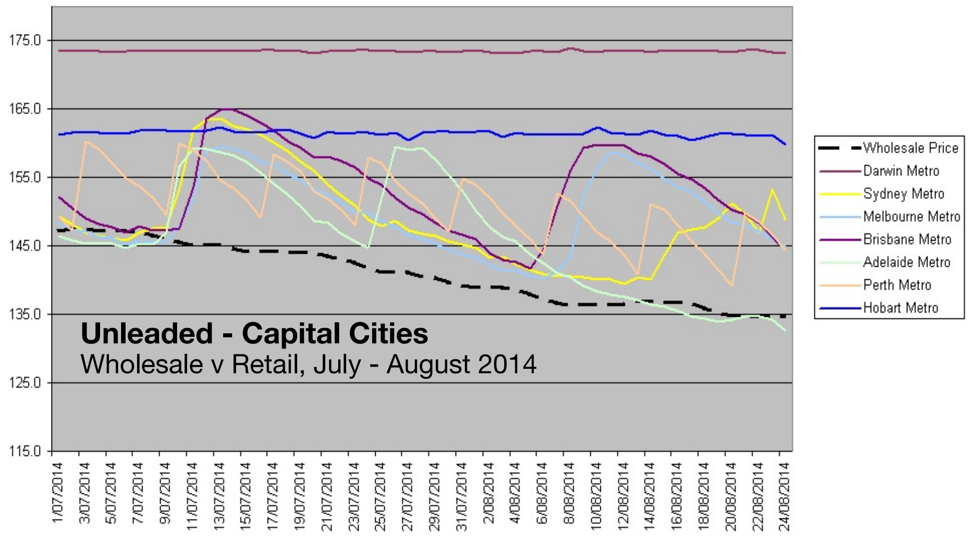
Motorspirit and to a lesser extent diesel are perhaps the most highly visible prices for crude oil based products in the local market. However, that doesn't guarantee full transparency for all consumers.

The Graph below shows the price movements in unleaded petrol that have occurred in the major capital cities vs the wholesale price movements over the period July - August 2014. It clearly shows that the wholesale price of unleaded petrol has fallen in line with the underlying crude oil price movements. However, not all retail pump prices have fallen to reflect these reductions particularily in Darwin and Hobart.

The clear message is that the existence of Government pricing mechanisms ie. Import Parity Pricing doesn't guarantee that businesses or consumers will automatically benefit from substantial reductions in underlying Crude oil prices.

The best option is to have all hydrocarbon based products linked to independent and fully transparent price variation formulae that can accurately reflect all movements in underlying crude price inputs.

FUELtrac has a full suite of hydrocarbon price variation formulae for all fuels and lubricants that have been developed specifically for this purpose.



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Vitol buys share in Liberty Oil Australia

August 25 (Reuters) - Swiss based trader Vitol has bought a minority stake in an Australian fuel supplier to help shore up demand for fuel from the Geelong refinery it recently took over from Shell Austrlia.

Vitol, which bought Shell's Geelong refinery and 870 service stations in Australia for A$2.9 billion ($US2.7 billion), said the investment in Liberty Oil was aimed at improving the refinery's outlook.

"We look forward to further strengthening this relationship by supporting Liberty both as an investor and a reliable fuel supplier" Vitol Chief Executive Scott Wyatt said in a statement.

Vitol and Liberty declined to comment on how big a stake Viva acquired or how much it paid. The deal is subject to regulatory approval by Austrlia's anti-trust watchdog.

Liberty had held talks with other companies about the stake, but Liberty Managing Director Paul Edminds said Vitol was a "natural fit" given it is a big supplier to Liberty.

"A significant percentage of our offtakes are sourced from Geelong and we expect this to grow in the coming years" Edmends told Reuters in an email.

source: www.reuters.com, Paul Sonali, 25 August 2014

BP reaches directly for consumers

Global energy giant BP plans to spend $10 billion this decade expanding its Australian petrol station network and developing oil and gas projects.

The UK-based company will open a dozen new petrol stations during the next 12 months, according to Andy Holmes, the president of BP's Australasia business.

"The big opportunities we're after is at the customer end of the business," Mr Holmes said. "Filling stations or truck stops or motorway stations, that's the area where we're turning up our focus."

The company owns about 330 of the 1300 BP-branded filling stations in Australia. It will close its Bulwer Island refinery by mid 2015 and may convert the facility into a fuel import terminal.

BP will also spend more than $1 billion on a deep water drilling campaign off Australia's southern coast.

source: Courier Mail, 25 August 2014

Please contact Geoff Trotter (General Manager) if you would like further information.

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FUELtrac

Are you unlocking maximum value from your contract?

Contract Management

FUELtrac helps many businesses manage their contracts. Here is an example showing the results of our services.

Client snapshot

A client with a significant spend in petroleum products had a long term supply contract with a major oil company. A lack of understanding about how their fuel price varied under their contract terms was unsettling to them. In particular they were unclear about how the fuel company was varying elements such as freight and terminal fees. Associated with a lack of understanding on how the industry worked, also meant they did not fully recognise the risks to their continuity of supply. Fundamentally, they did not know whether they were maximising the value from their existing contract.

Overview

The client's organization was diverse both in geographical spread and business streams. The contract manager needed to demonstrate to the stakeholders (on a monthly basis) the value gained or forgone through their fuels and lubricants sourcing practices.

Services provided

Managing contracts to compliance is one thing, managing contracts to ensure you can extract maximum value from the terms and conditions negotiated with your supplier is another.

Outcomes

FUELtrac has assisted the client in extracting over $2M in value that has previously been foregone.

FUELtrac's assistance has meant the client has not had to hire a permanent contract management resource delivering ongoing savings in staff and training costs.

FUELtrac can manage your contract against the Key Performance Indicators agreed with your supplier.

Our consultants can then advise how to best leverage conditions such as delivery locations, delivery volume size, variations in pricing from one period to another, and variations in pricing (daily, weekly or monthly) between multiple suppliers.

"FUELtrac helped us understand the issues with pricing formulae and risks associated. Post tender process helped us make sure suppliers meet their obligations old contract vs new."

National Procurement Manager

www.fueltrac.com.au/services/contract_management