AGENDA ITEM E4 – REGIONAL PETROLEUM ADVISORY SERVICES TO THE PACIFIC ISLAND COUNTRIES AND TERRITORIES
[Jointly Submitted by Pacific Community (SPC), OPM]

Purpose

1. The purpose of this paper is to highlight the existing challenges of the Regional Petroleum Advisory Services at SPC; provide an update on the progress of the regional petroleum priority areas actioned from the last ministers meeting; and to seek support of new approaches to the delivery of the regional petroleum advisory services to the Pacific Island countries and territories (PICTs).

Background

2. The Framework for Action on Energy Security in the Pacific (FAESP) was formulated in response to the call from Pacific Leaders at the 40th Pacific Islands Forum in Cairns (August 2009) for improving energy security. Their words reinforced an earlier call by the Pacific ministers for energy at their ministerial meeting in Nuku’alofa (April 2009), which recognised that energy security is imperative for economic growth and human development.

3. In relation to petroleum related issues, FAESP recognises that petroleum-based fuels will remain the major source of energy for the region for the foreseeable future and acknowledged that Pacific economies are the most vulnerable in the world to rising oil prices.

4. The Georesources and Energy Programme of the Pacific Community (SPC) is the only regional programme that provides petroleum advisory services to the PICTs. This in terms of technical advice, support, and training to PICTs on a wide range of petroleum-related issues, including fuel pricing, supply negotiations, price regulation and monitoring, fuel quality and specifications, energy policy, legislation and regulations, health, safety, and environment, as well as the development and deployment of alternative fuels, including biofuels from indigenous raw materials.

5. The SPC Petroleum Advisory Service provides fuel price-related support in a number of ways; including regular analysis and petroleum related publication and the sharing and verification of petroleum market/pricing data and information of S&P Global Platts international and regional pricing, the re-introduction of the Pacific Fuel Price Monitor, the development of Fuel Pricing Templates on a PICT-specific basis, as well as specialty assistance for fuel supply and pricing negotiations, as and when requested by PICTs.

6. The Petroleum Advisory Service were S&P Global Platts subscribers, for the Asia-Pacific/Arab Gulf MarketScan Basic Service; Clean (Product) TankerWire Basic Service and Market Data Direct: Dynamic Package (real-time: MDD). The subscription does not allow the re-distribution/re-publication of the actual Platts data, which is copyrighted SPC-analysed versions of the data and produce reports; weekly, monthly averages and trends, which are shared with SPC member countries.

7. The Pacific Fuel Price Monitor is published every three months and reports on retail and wholesale prices for Motor Gasoline (mogas) or unleaded petrol (ULP), Diesel Fuel or gasoil, kerosene and Liquefied petroleum gas (LPG) from PICTs members and regional reference markets. Prices are reported both including and excluding government taxes and charges in order to allow a comparison of the underlying landed cost of the fuels. Fuel prices are then plotted against PICT total annual...
fuel volumes. This allows observed prices to be put into context and compared with potential market economies of scale.

8. Fuel pricing templates specific to individual PICTs have been developed to assist in determining a fair landed cost of imported fuel and also for the purpose of regulating or monitoring fuel prices within PICTs. These templates account for all costs related to the importation of fuel, as well as allowing fuel suppliers to fully recover their direct costs and generate a reasonable profit.

9. The SPC Petroleum Advisory Service also offers direct and specialized assistance for fuel procurement and / or during direct negotiation with potential and existing fuel suppliers. Past work has included training of PICT government officials, negotiating national fuel supply contracts, the annual review of supplier-specific parameters for PICT fuel-pricing templates, and assisting PICTs to secure consistent fuel supplies in a sustainable manner while promoting private sector competition.

10. The financial support of the Government of Australia is gratefully acknowledged for the establishment and ongoing operation of the SPC Petroleum Advisory Service until 2017.

11. The Third Pacific Regional Energy and Transport Ministers Meeting in 2017 identified a number of priority areas for the petroleum sector which was seen as urgent to be undertaken to support decision making processes in weighing energy security over the push and drive from the region toward a carbon neutral economy. This covered the following priority areas:-
   i. Direct SPC to conduct a feasibility study of the transition to higher quality fossil fuel, in consultation with national and regional stakeholders;
   ii. Direct SPC to conduct further investigation on phasing out fossil fuel subsidies and assess the value of a regional commitment by the Pacific to declare itself as a region free of fossil fuel subsidies;
   iii. Endorse a Task Force (consisting of SPC, South Pacific Oil, Fiji Competition and Commerce Commission, American Samoa and Tonga Electricity Commission) to continue the negotiation with Platts for the best outcome that is required by SPC and its member countries on a proposed regional arrangement to support an affordable and effective pricing subscription for the PICTs

Issues/Highlights

12. Since 2017 due to funding constraints, SPC’s Petroleum Advisory Services has been greatly impacted which has resulted in the downsizing of its petroleum advisory function:-
   i. Petroleum adviser position vacant since 2017. Technical support and advice to fuel procurement negotiations and annual fuel pricing template reviews no longer offered. This has eventuated in selected country regulatory offices incurring additional operation costs to secure consultancies to provide the necessary advice.
   ii. SPC is no longer a S & P Global Platts subscriber since December 2017. Provision of independent fuel price verification no longer offered to PICTs. Regulatory Offices from PICTs that rely on these services have been greatly impacted and have raised their concern to SPC.

13. As a result of the gaps in this services, noted efforts have emerged among PICTs.
   i. In terms of pricing verification works:-
      a. Selected countries have undertaken cross-country price comparisons with the national regulators sharing insights to complement their pricing verification works.
      b. PICTs are making arrangement with their suppliers to allow spot audit of pricing templates as part of the verification process;
      c. Platt’s subscriptions to suppliers has also increased and suppliers are now raising their concern to country regulators. This extra cost to the suppliers will eventually
be passed down to PICTs consumers.

ii. In terms of capacity building support, the financial support of NZ MFAT is gratefully acknowledged in providing a platform through the South-South partnerships to facilitate capacity-building support to Vanuatu in 2018 whilst drawing from the experience and knowledge insight of American Samoa, Solomon Islands and Fiji.

14. Regional efforts into progressing the key petroleum issues raised in the 2017 Energy Ministers meeting have been slow with the following progress noted:-

i. *Transition to high quality fossil fuel* - In light of the global transition to high quality fossil fuel, S&P Global Platts effective from 2nd January 2018, lowered the sulfur specification of its flagship Singapore and FOB Arab Gulf Gasoil assessments to Gasoil10 ppm from the existing Gasoil 500 ppm. In 2018, PICTs supplied from Singapore continued to be supplied on 500ppmS Diesel but based on 10ppmS diesel price. The traded price differential between 10ppmS and 500ppmS was a concern back in 2017 however; this is no longer an issue as the price differential now is becoming insignificant.

The Government of Fiji, effective from 2 January 2019 shifted to Gasoil 10ppm Sulphur specification and Gasoline 95 Unleaded. With Fiji being a hub, PICTs that are supplied from Fiji are making the adjustment as well.

ii. *Investigation and assess the value of a regional commitment by the Pacific to declare itself as a region free of fossil fuel subsidies* - ESCAP has funded an evidence-based policies project in Fiji and Tonga. It is now developing an integrated modelling tool (NEXSTEP) as a follow up initiative. The NEXSTEP is capable of modelling the financing options for the achievement of a country’s energy targets. One of the capability of the model is its demonstration of how carbon tax and fossil fuel subsidies can influence the least cost options that are available to a country, based on its energy policies.

iii. *Negotiations with Platts* – The established Task Force under the chairmanship of American Samoa led progressed the following action items:-

a. Renegotiation with Platts on the subscription fee if charged to SPC and to individual countries. Prices quoted to date for the annual subscription is

- Option 1 – Individual offer by subscriber
  - SPC – USD 28,652 per annum
  - Countries - $3,721 to $119,826 (prices varies from very small to large countries)
- Option 2 – Consolidated purchase
  - SPC plus the 21 PICTS - $881,653.71 per annum

b. Seek alternative sources of Publication. In 2017 and 2018, the Task Force approached OPIS and Argus as alternative sources. OPIS was non-responsive. Argus is also a provider of commodity and Energy Benchmark like SP Platts. Prices quoted to date from Argus for annual subscription is

- Option 1 – Individual offer by subscriber, to negotiate with Argus.
- Option 2 – consolidated purchase centralised at SPC for PICTs – US$63,530 per annum

c. Seek alternative verification methods. This will eventuate in PICTs opting to go without publications but to have an agreement in place to audit fuel suppliers.

The Task Force further noted key comparisons when considering alternative sources of benchmark pricing from Platts and Argus:-

- Argus and Platts do no quote the same benchmark number however; the daily trends are similar.
Switching to Argus will mean that the whole region (regulators and suppliers) will need to switch.

Selected fuel suppliers in the Pacific are subscribers to both Platts and Argus.

15. Whilst there is a bigger momentum globally and regionally to pursue a carbon neutral economy, the fact remains that with the current energy infrastructure in the PICTs we will continue to rely significantly on fossil fuels to meet our existing energy needs for the next 20 to 30 years. The debacle over the transition to cleaner fuels over having secure and affordable energy must be weighed and given the same set of priority focus to address the energy needs of all citizen in the Pacific Island countries and territories.

Recommendations

16. The meeting is invited to:

i. **Recognize** that there is still a need for Petroleum advisory services from SPC to PICTs.

ii. **Direct** SPC to conduct an assessment to ascertain the best approach to effectively deliver this important services to the region for the coming years;

iii. **Encourage** PICTs to direct petroleum advisory needs to SPC.

iv. **Encourage** more South-South collaborations among the PICTs to draw on each other’s experience, knowledge transfer and capacity development on fuel price templates, verification, regulation and other petroleum related matters; and

v. **Encourage** development partners to support the delivery of the regional Petroleum Advisory Services.