Fuel Price Monitor

17th December, 2002

Edition 02 **Fuel Prices for September/October, 2002**

Fuel Price Monitor at a Glance

We are encouraged by the positive reception to the first edition of Fuel Price Monitor, demonstrating a wide interest in the price of fuel around the Pacific Region.

In this edition, we include fuel price feedback from all Forum Island Countries (FICs) as well as our near neighbours, the French and American Pacific territories and NSW Australia. To add perspective in terms of relative supply economics, we also include annual demand volumes.

Average world price has risen in the past two months to 18 and 20 US cpl for mogas and diesel respectively, being directly affected by world events, specifically the prospect of war with Iraq, but also tensions in other parts of the middle east and the oil producing regions of West Africa and Venezuela.

All prices shown are in US cents per litre, both with and without government duties and taxes included.

Brief Overview

- Wholesale Mogas (incl. tax) varied from 30-100 US cpl. French territories had the highest prices with Solomon Islands and American Samoa lowest.
- Excluding tax, the best Mogas value is in American Samoa, Fiji, PNG, Samoa and Solomon Islands. Surprisingly, New Caledonia has the highest annual demand and also the highest prices.
- The lowest Retail Diesel (incl. tax) is found in Nauru, the highest in French Polynesia & Vanuatu.
- Excluding tax, Retail Diesel in Fiji, Samoa and Solomon Islands is lowest with Marshall Islands, Niue, Tuvalu and Vanuatu the highest.

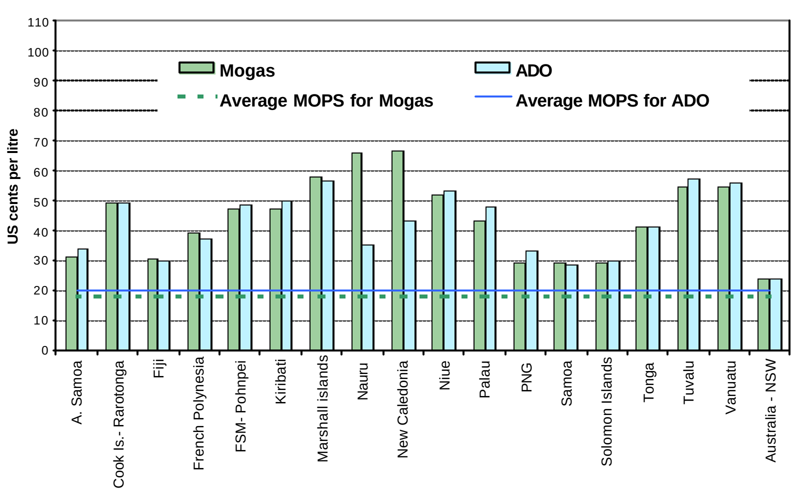
What's inside………..

1. REGIONAL RETAIL FUEL PRICES (*Excluding Duty and Tax*)

Retail prices of Mogas and ADO excluding Tax and Duty

The retail fuel prices remained steady in most of the Forum Island countries (FICs) compared with the last period. The mean FIC-average retail price (excluding duty and taxes) in the September/October period for Mogas and ADO were 44.1 and 42.1 UScpl, respectively.

Figure 1.1 Average Retail Fuel Prices without Tax and Duty



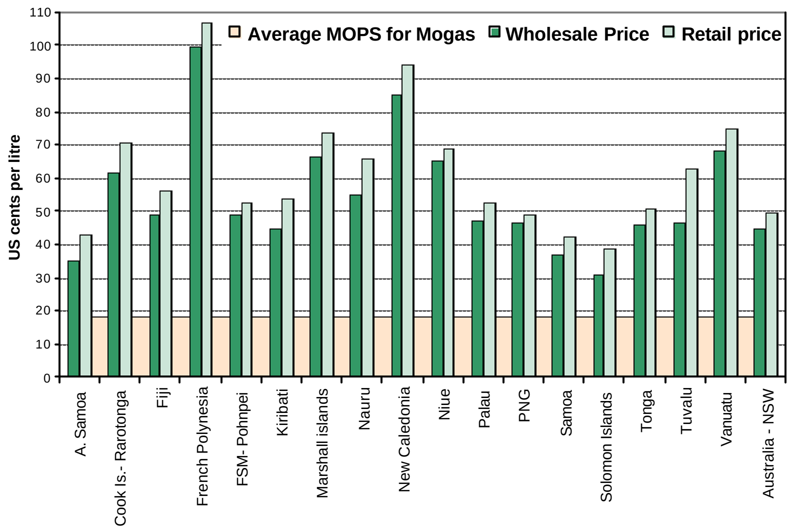
Nauru and New Caledonia show significantly higher Mogas compared with Diesel while in most other countries, the prices are roughly comparable. The MR ports of American Samoa, Fiji, PNG, Samoa and Solomon Islands (with the notable exception of New Caledonia) compare favourably with NSW Australia.

Average MOPS was 18.1 UScpl (↑ 8%) for Mogas and 19.9 UScpl (↑ 14%) for ADO.

2. MOTOR GASOLINE (92ULP) PRICES

Prices of Motor Gasoline *(Mogas)* including Sales Tax and Duty

Figure 1.2 Regional Prices of Mogas (including Sales Tax and Duty)



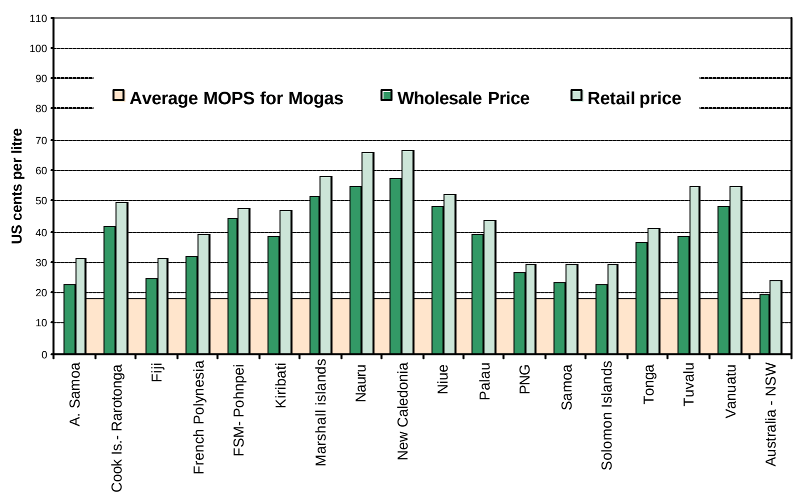
French Polynesia and New Caledonia experienced the highest Mogas prices.

Despite a 20% increase in fuel prices in Solomon Islands over the July/August period, its prices still remained the lowest of all the surveyed countries, partly due to the rapidly declining value of the local currency against the US Dollar.

Average MOPS for Mogas during September/October period was approximately 18.1 UScpl, an increase of 1.3 UScpl compared with the July/August period.

Prices of Mogas (Gasoline) excluding Sales Tax and Duty

Figure 1.3 Regional Prices of Mogas (excluding Sales Tax and Duty)



Retail Mogas prices in Nauru and New Caledonia were the highest in the region, which is somewhat surprising since New Caledonia also has the largest regional demand *(see section 5)* for gasoline.

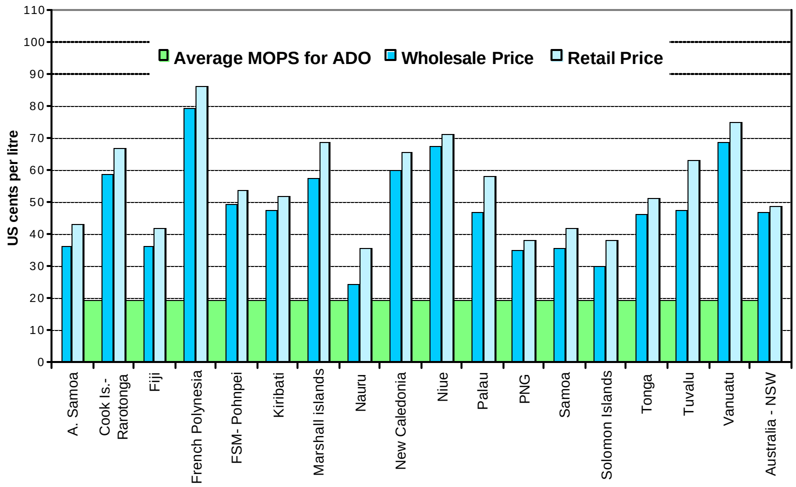
American Samoa, Fiji, PNG, Samoa and Solomon Islands had their prices well aligned to the much larger Australian market.

The mean difference between the average wholesale and retail prices (*excl. tax*) was approximately 6 UScpl.

3. AUTOMOTIVE DIESEL PRICES

Automotive Diesel (ADO) including Sales Tax and Duty

Figure 1.4 Regional Prices of ADO (including Sales Tax and Duty)

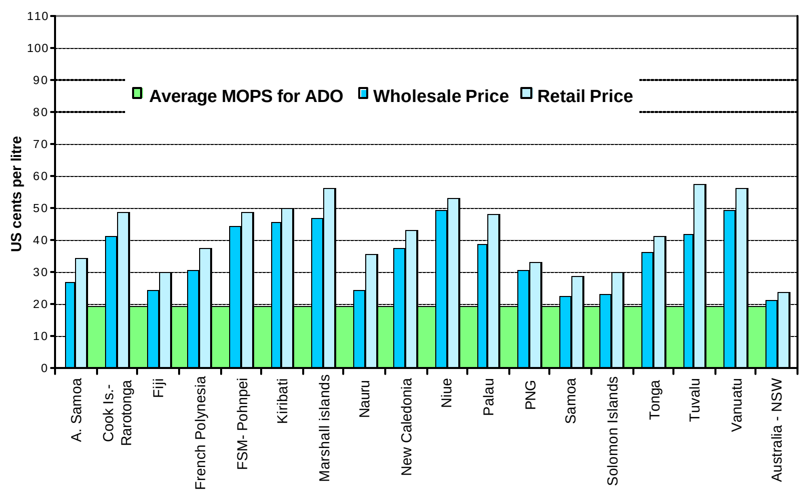


Average wholesale and retail prices of ADO including sales tax and duty were in the range of 30-90 Uscpl. French Polynesia and Vanuatu have the highest prices while Nauru and Solomon Islands have the lowest.

Average MOPS for Mogas during September/October period was 19.9 UScpl, an increase of 2.4 UScpl over the July/August period.

Prices of ADO (Diesel) excluding Sales Tax and Duty

Figure 1.5 Regional Prices of ADO (excluding Sales Tax and Duty)



Without tax, ADO prices in Fiji and Samoa are comparable with prices in NSW Australia.

Surprisingly high are the MR ports of Marshall Islands and Palau.

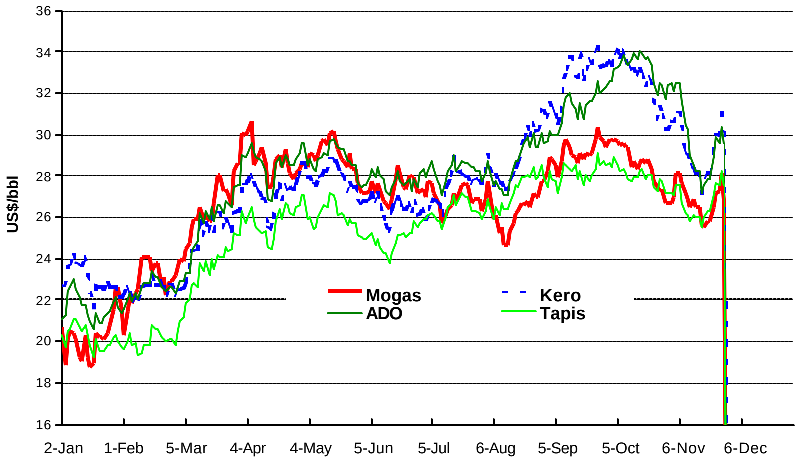
PNG does not reflect the economies of scale that we expect with the their huge relative volumes (*see section 5*).

The mean difference between the average wholesale and retail prices for ADO (*excluding duty and taxes*) was approximately 6 UScpl.

4. MOPS: Singapore Fuel Price Updates

Mean of Platts Singapore (MOPS) for 2002

Figure 1.6 Mean of Platts Singapore (2002)



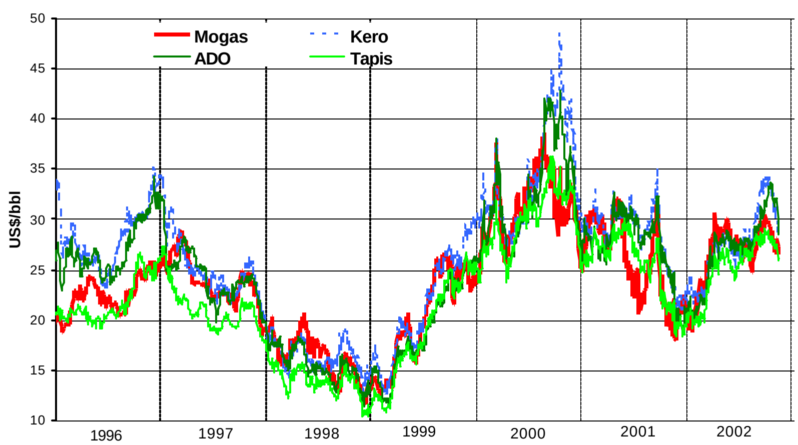
World crude prices during September/October were supported by the prospect of U.S led attack on Iraq. Prices fell in November after Iraq accepted UN demands.

Early December shows some 'war premium' enhanced by the new tensions in Venezuela and an early, cold northern winter.

Overall, the annual graph demonstrates the sentiment that the preferred price range that will satisfy all players is in the range of US$25-30/bbl. The price spike in September and October clearly indicate that it is once again the middle distillates (i.e. jet and diesel) that drive fuel product pricing, with Mogas the being 'price taker' and very nearly a by-product of refinery output. It has been reported that OPEC leaders are concerned that current prices are not sustainable and may fall in mid 2004.

Mean of Platts Singapore (MOPS): Multi-Year Trends

Figure 1.7 Mean of Platts Singapore Annual Trends (1996 – 2002)



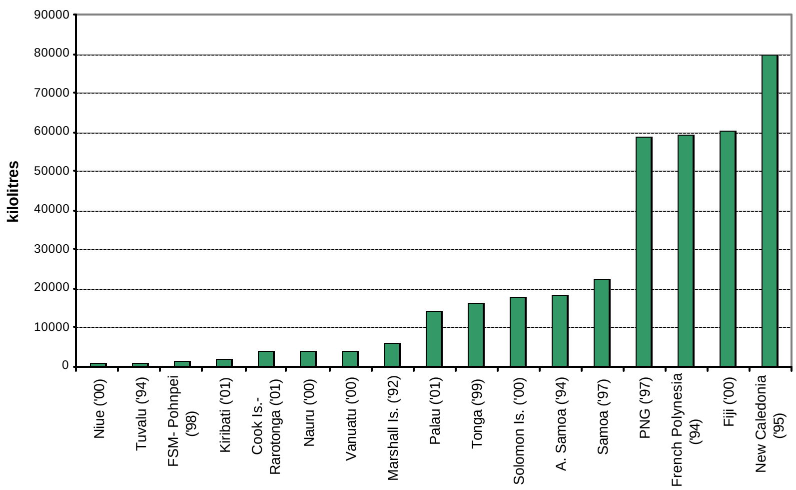
Multi-year graphs clearly demonstrate the 'managed' nature of fuel prices since early 2001. Evidently, US25-30/bbl is the target range. Major world events only serve to sway fuel prices for short time before they are brought back into line.

Ultimately, we believe that it was the demand and price weakness of mogas that caused prices to drop in late 2001 although 11Sept was clearly the catalyst. The concerns expressed by some OPEC members regarding fuel prices in 2004 are ultimately based on demand/supply imbalances. It will be interesting to watch this story as it unfolds over the next few months.

5. Petroleum Import

Mogas Imports by FIC *(includes volumes that are re-exported)*

Figure 1.8 FIC Mogas Imports

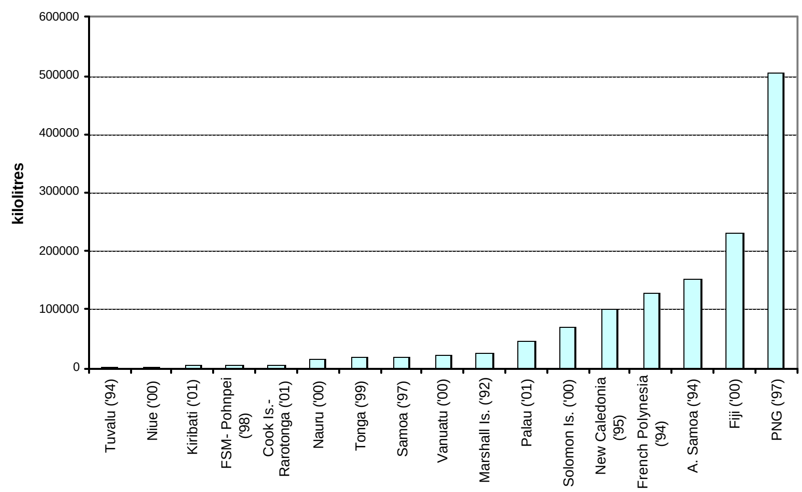


Fuel prices in the Pacific Islands are largely volume driven given the distance from refining and supply centers.

The cost difference between FICs receiving fuel shipments in medium range (MR) vessels can be several US cents per litre less than shipments by local coastal tanker (LCT). Noticeably, there are three distinct market sizes for mogas, being the (relatively) large markets of New Caledonia, Fiji, French Polynesia and PNG each with in excess of 50,000 kl annually, followed five countries in the 10-20,000 kl range and 8 countries with less than 10,000 kl.

ADO Imports by FIC (includes volumes that are re-exported)

Figure 1.9 FIC ADO Imports



ADO imports generally show significantly larger volumes since ADO is used to generate most of electricity in FICs. It is volume of this fuel that generally drives FIC fuel economics and therefore costs. As can be seen by the graph, PNG dominates this sector, followed by Fiji, American Samoa, French Polynesia and New Caledonia.

The entrepot (re-distribution) island countries of Fiji, PNG and New Caledonia have a further natural advantage in that the re-distributed fuel adds to their throughput, thus potentially further reducing costs. Hence, in general larger markets should show significantly lower fuel costs. As we are seeing, though this is not always the case, prompting questions as to what other factors are influencing island fuel prices.

A wide variation in fuel import volumes per country exists, as illustrated by the graphs.

6. Glossary

Abbreviation and definition of key terms

ADO/Automotive Diesel	Gasoil 0.5% Sulphur max.
US cpl	US cents per litre
Entrepot	MR intermediate distribution point
FICs	Forum Island Countries, being members of the Pacific Islands Forum
FOB	Free on Board at supply point
FPM	FuelPrice Monitor
kl	kilolitres
LCT	Local Coastal Tanker, generally 1-5,000 Metric tonnes
Mogas	92 RON ULP
MOPS	Mean of Platts Singapore
MR	Medium Range Tanker, generally 20-30,000 Metric Tonnes
RON	Research Octane Number
Spot prices	Product Market (not restricted to fuel) Price traded on any given day.
ULP	Unleaded Petrol
Retail price	Fuel price paid by normal consumers, also called Pump price.
Pump Price	Refer to retail price
Tax	In this context, Tax is the Sales Tax charged on fuel by the government.