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Argus White paper: Argus jet fuel c+f Durban index



New jet fuel price index for South Africa

In November 2015 Argus Media began to publish a daily jet fuel index to reflect the price of fuel deliveries into the South African port of Durban, as a service to airlines, their suppliers and traders operating in the region. Argus is the first independent price reporting organization to publish a jet fuel price for South Africa and the initiative is part of our commitment to bring transparency and market linkage to commodity price indexation in Africa and around the world.

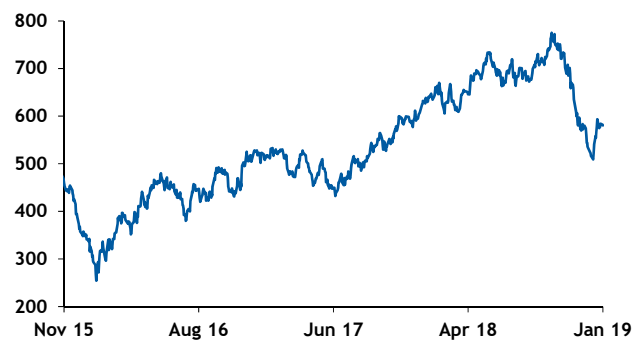
The jet fuel c+f (cost and freight) Durban cargo price can be found in the daily Argus Jet Fuel and Argus Asia-Pacific Products reports, and is based on the jet fuel price in the Mideast Gulf, adjusted for the cost of transportation of 35,000t cargoes of jet fuel from the Mideast Gulf to Durban, as assessed in the daily Argus Freight report.

We chose Durban for the location of the index due to its importance as a fuel importation point and due to the pipeline connection to OR Tambo airport in Johannesburg, a principal aviation hub for Africa and the southern hemisphere.

South Africa is usually self-sufficient in jet fuel, but relies on imports — mostly from the Mideast Gulf or the west coast of India — when refineries are shut down for maintenance. The country's distance from the world's large oil producing and refining centres has meant that a system of import-parity pricing has developed, where domestic fuels are priced according to the marginal price of replacing them with supply from international trading hubs in Europe, the Middle East or Asia-Pacific.

Jet/kerosine c+f Durban, history to date

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Freight

A crucial element in the Argus jet fuel c+f Durban price is the assessment of freight costs from the Mideast Gulf to Durban. An independent daily assessment of the price for chartering a vessel to carry a 35,000t cargo of jet fuel on this route is preferable to alternatives such as using a fixed rate which is by its nature unresponsive to market changes, or relying on broker panel pricing, which can lack independence and methodological rigour.

Just as commodity prices are influenced daily by changes in supply/demand balances, so the price of freight fluctuates according to changes in vessel availability, bunker fuel prices and other costs involved in carrying liquid fuels. A daily assessment of this freight rate, added to an accurate assessment of the price of the cargo itself, provides the best measure of the replacement cost of bringing jet fuel into South Africa - in other words, true import parity.

Petroleum

illuminating the markets

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Use of the index

The *Argus* jet fuel c+f Durban price can be used as the base index in a supply contract, with an appropriate premium negotiated to cover additional storage and distribution costs incurred in bringing jet fuel to a specific location for supply into aircraft, as well as the trader's margin as appropriate.

The use of a variety of non-standard pricing templates in South Africa is at odds with market transparency. If offers of jet fuel from different suppliers are made against a standard

index, it is easier for buyers to judge how offers compare against one another, and

for sellers to ensure that their own offers are competitive. This is normal practice in most commodity markets.

While the market reflects on whether such a change is desirable, the *Argus* jet fuel c+f Durban price can be used as a market reference to judge whether the outright results of existing tenders are in line with true import parity. It can also be used to compare the prices of imports from different markets.

About Argus

Argus is an independent media organization with 750 full time staff. It is headquartered in London and has offices in each of the world's principal commodity centres. Its main activities comprise publishing market reports containing price assessments, market commentary and news, and business intelligence reports that analyze market and industry trends. Data provided by Argus are widely used for indexation of physical trade. Companies, governments and international agencies use Argus information for analysis and planning purposes.

Half of Argus employees are commodity journalists who specialize in reporting news and price information relating to physical energy and related commodity markets. They operate according to a rigorous Editorial Code of Conduct and a Compliance and Ethics Policy that align with best journalistic practice.

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