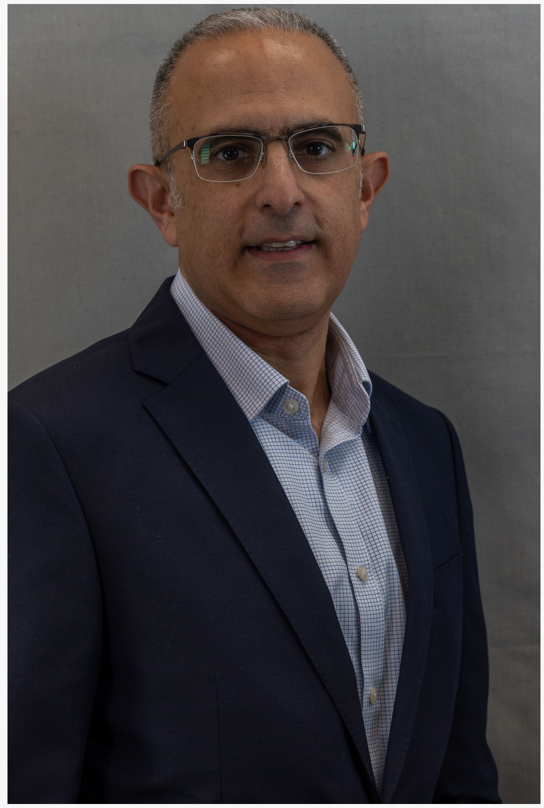
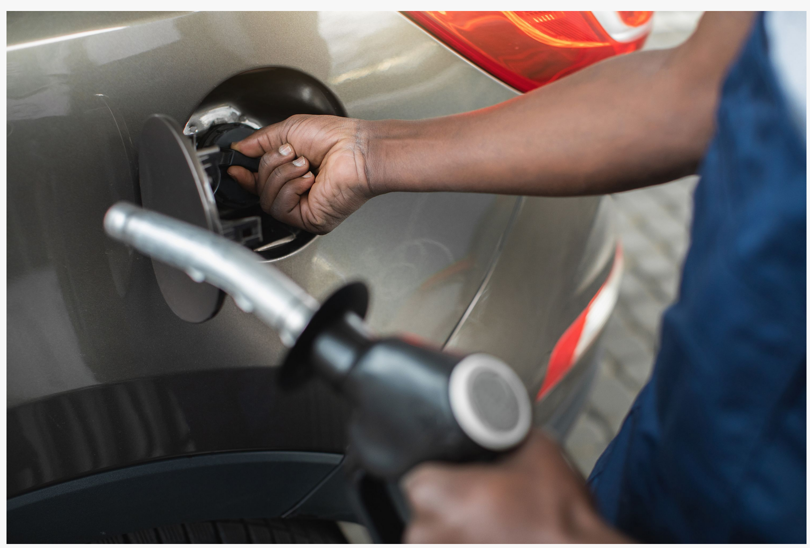
An expert asks if it is the oil companies that are to blame for high prices at the pumps

JOHANNESBURG, GAUTENG, SOUTH AFRICA, April 17, 2023 /EINPresswire.com/ -- Around the world the price being paid at the pump by the average consumer for a litre of petrol is going up. With the price of the raw ingredient in diesel and petrol, crude oil plummeting to a historically competitive $74 a barrel, consumers are noticing that the prices aren't coming down and that oil companies are, at the same time declaring record profits. Fred Razak, Chief Trading Strategist at CMTrading explains that people are probably too focused on the oil price for determining their pump price.



Fred Razak, Chief Trading Strategist CMTrading



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"What we need to understand is that the price of the raw product does not immediately impact the price at the pump," says Razak. "Likely only 20% to 25% of the price at the pump is based around the actual oil price. Let's assume you are paying R30 a litre at the pump, well that's made up of several costs. The other 75% of the cost of that R30 is made up of taxes, the cost of refining the oil, and the cost of distributing and serving the petrol, and the rand dollar exchange rate."

Everything is getting increasingly more expensive from the labour used in the refining to, ironically, the price of fuel in the distribution process. Razak

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suggests that it is this, which is driving the current high prices, and says that no matter how low the price of crude oil gets, consumers should not expect the price of fuel to plummet any time soon.

"If we want to talk about where the oil industry's record profits are coming from, we should rather look to demand. During Covid-19 demand for petrol and oil was at a record low as people stayed home and logistics ground to a halt. Now it's recovering and we are seeing the oil companies reaping the benefits from this increased demand," explains Razak.

Razak's long term forecast for the price of oil is therefore not likely to be encouraging to consumers, especially as he believes the development of alternative fuels and modes of transport will not make as much of an impact as expected.

"I hate to burst the bubble, where everyone thinks that oil is just going to become obsolete and electric cars are the way of the future. Yes electric cars are going to be used in the future, and yes they will become a standard, but that is a drop in the bucket when we look at what oil is being used for," he says. "There are obviously airplanes, tankers, locomotives all being powered by oil, and nevermind the creation of plastics, so it's going to take a while for the price of oil to be diminished, because there is not enough demand in the market. If you think about it, the population is just getting bigger. A larger population equals a greater demand for oil. Essentially, yes, eventually we will overcome our dependence on oil, but the demand isn't just going to drop off."

Due to the long term factors, and the relatively stable price being experienced at present, Razak doesn't expect any dramatic moves in terms of crude oil. He does, nonetheless, predict that consumers may be paying even more at the pump for their fuel.

"Prices at the pump are being influenced by taxes that are being raised to cover some of the Covid-19 costs that have been incurred over the past few years," he says. "Sadly there doesn't seem to be anything governments can really do to ease the burden on consumers either. They can't just 'take care of it and lower the prices' because those taxes do need to be raised and ultimately that means someone needs to pay for them somewhere, and there are also other considerations like refineries and distribution, that need to be compensated for the price of oil."

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