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PRESS RELEASE

Hydrocarbon supplies: Potential savings of a billion francs for the Polynesian economy

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Key Points

The configuration of the supply of petroleum products to French Polynesia justifies the concentration of the transport of products imported by the three companies importing petroleum products to French Polynesia (PPS, Total and Petropol): on the one hand, French Polynesia is far from both the main oil production areas and the main shipping routes; and, on the other hand, the narrowness of the downstream markets between the three oil companies means that each oil company's annual requirements are small by international standards.

Until 2016, this pooling of hydrocarbons was organised by a tripartite agreement between the state, the companies that import petroleum products and the companies that transport them.

As part of a project to renew this agreement, the Polynesian competition authority (APC or the Authority) was asked in June 2021 to give its opinion on French Polynesia's hydrocarbon supply activities. This referral followed a previous opinion, issued in 2016, on the state of competition in the hydrocarbon sector.

The choice of transport contract is a wise one. It strikes a good balance between freedom and constraint, and between protecting the interests of Polynesian consumers. The objectives of this agreement are (i) to fix the freight costs included in the price structure for hydrocarbons in order to protect against excessive prices and (ii) to reduce the number of annual tanker rotations to French Polynesia, thereby reducing the fixed costs associated with the transport.

Such an arrangement provides a degree of transparency and also ensures that non-integrated companies (which do not benefit from transport by one of their subsidiaries or by a company belonging to the same subsidiary or group) have their products transported without discrimination.

The Authority's critical analysis shows that the draft agreements contain conditions that are unfavourable to the country and unjustified.

The changes recommended by the Authority could lead to significant savings for the Polynesian economy of the order of one billion francs.

Recommendations

The aim is to find a system that favours flexibility for operators (within the limits of secure and regular supplies), but allows the country to benefit at least partially (but not fully, in order to maintain the incentive for oil companies to improve) from the resulting efficiency gains.

In order to strike such a balance, the Authority makes the following proposals to the Government. They are based on objective values (the Worldscale and Platts indices) and avoid the risk of tariff manipulation by the integrated players, while ensuring a level playing field. by the integrated players, while taking into account the objective additional costs of supplying the Polynesian territory (including the shallow depth of the channel and limited storage capacity).

How to select routes for the flat rate:

1. For the point of departure: choose the route actually taken by the carriers.
2. For the arrival point, we welcome the fact that the new agreement takes into account the more realistic flat rate for journeys to Papeete.

On the choice of routes for the World Scale point:

3. Recall that this index is in fact a coefficient that increases the flat rate that applies to the route to Papeete, there is no increase due to the irrelevance of the route chosen by this second index (Singapore-Sydney). index (Singapore-Sydney) cannot be accepted.

Index surcharges:

4. Remove the 15 point increase in the World Scale Index.

On the surcharge coefficient linked to vessel capacity (deadweight tonnage/unloaded tonnage):

5. Firstly, the removal of the surcharge coefficient to take account of importers' capacity and to allow importers and carriers to optimise their routes.
6. Alternatively, modify the denominator to take account not of the actual quantities unloaded but of a maximum quantity that can be unloaded (e.g. set at 35,000 tonnes) in order to encourage importers and carriers to limit the number of voyages to FPO.

On the range of freight rates:

7. Do not reintroduce a range for the calculation formula or maintain only a ceiling.

On fuel surcharges :

8. Ensure that the current draft agreements explicitly exclude any such invoicing and that it is not reintroduced, whatever the system finally adopted in the future. and that it is not reintroduced, whatever the system finally adopted in the future.

Demurrage (charges contractually invoiced to the importer by the carrier in the event of delays in loading or unloading):

9. A distinction should be made between cases in order to avoid any unjustified invoicing and, in any event, only delays due to unforeseeable events not covered by insurance, which are not the responsibility of a third party and which occur in FPO.

Restriction of potential importers:

10. No clause restricting imports to signatory companies.

Change of route:

11. Make route changes subject to compliance with delivery times and to the agreement of signatory importers only.

On the obligation to carry and the associated penalty:

12. Drawing up a restrictive list of cases in which carriage may be refused (cases of force majeure, which must be precisely defined; proven impossibility of loading an importer's volumes within the rotation period provided for in the text; breach or non-performance of the contractual relationship by the shipper; reaching the "unloadable" transport capacity in Tahiti, i.e. 37,500 tonnes).

13. Instead of a penalty for the rotation in question, provide for a limitation of the conventional tariff to the conventional freight rate taken into account in the CAF schedule to the strict application of the Worldscale and Platts road indices, excluding any surcharge.

On spot transport :

14. Extend the cases where spot transport is used to take account of operational constraints, but do not take spot journeys into account in the methods for calculating quantities unloaded (if this variable was retained in the formula).

15. Instead of a penalty, a restriction of the conventional freight rate for the journey in question of the CAF scale to the strict application of the Worldscale and Platts road freight indices, without any indices, without any surcharges.

A reminder of the issues

1. Ensuring a balance between flexibility for operators and security of supply at a reasonable price

The tariff methodology proposed in the May 2021 version of the agreement, which has been approved by the oil companies, is based on a methodology that is very protective of the interests of the transmission system operators. It is based on the cost of a transport dedicated to French Polynesia, which would go directly from Asia to Papeete, with a load limited to the volumes unloaded in Papeete, and takes into account all the additional costs (such as demurrage, even if not related to French Polynesia), as well as a surcharge that no longer seems justified. These costs, once included in the CAF scale, weigh heavily on Polynesian consumers (individuals and businesses).

Conversely, the transport arrangements in this version are much more flexible than those proposed by the government in July 2020 and therefore do not seem to be able to guarantee their effectiveness (for example, the clauses on spot transport or refusal of transport).

Admittedly, setting the calculated cost at a high level ensures that carriers will be well rewarded for supplying French Polynesia, thus guaranteeing the country's supply of hydrocarbons. However, these high calculated costs do not correspond to the costs actually borne by the hauliers (in particular because they optimise the route and their charges are therefore much lower than those calculated in this way). They therefore receive the full result of this optimisation, without the State receiving anything in return.

As far as importers are concerned, they are price “passers” since the price is built into the regulated freight rate. They have no particular interest in negotiating rates, and if they do, it is to their sole advantage, since it has no effect on the regulated freight rate (the rate actually paid would in this case be lower than the rate included in the selling price) and no benefit for consumers (as we have seen, although the regulated rate is supposed to be a ceiling, in reality it corresponds to the rate actually applied). Finally, this situation potentially penalises the only importer that is not part of a group that also includes a transmission operator, as it is not in a position to benefit from the competitive advantage on the distribution side.

On the other hand, the agreement must not be overly restrictive, limiting the operating and logistical margins of the parties. For example, a tariff that is too strict, that corresponds strictly to the price of the route actually taken, with no supplement for the reduced capacity of the port and storage facilities, on the assumption that the vessels are fully loaded, that imposes an obligatory number of voyages and penalises spot transport, risks limiting the efficiency of the operators, who have an interest in optimising their routes and must be given some room for manoeuvre as long as they achieve their main objective (timely delivery to FPO). In the extreme, although this argument seems highly unlikely at present, it could even discourage operators from using this route, thereby jeopardising supply.

2. Correct calibration of a freight rate formula that is potentially costly for the Polynesian economy

One of the objectives of the Convention is to establish the rules for determining the freight rate incorporated into the hydrocarbon price structure (the "CAF scale"). The level at which this freight rate is set has a major impact on the Polynesian economy. The CAF scale is the basis for setting wholesale fuel prices and affects a number of economic activities (fishing, pearl farming, etc.). It is also the basis for setting retail fuel prices and affects the pump price paid by consumers as well as electricity prices. As an indication, the CIF scale value represents between 30% and 100% of the regulated wholesale and retail prices of imported hydrocarbons.

The freight formula provided for in the draft agreements examined is less favourable for FPO than that in the old agreement. The formula provided for in the new agreement maintains a surcharge that has no objective basis. It is particularly punitive because it takes into account the actual unloading in Papeete, rather than a flat rate based on unloading facilities.

It removes responsibility from the carriers, who are no longer encouraged to optimise unloading or pooling, and are even encouraged to reduce their average deliveries.

3. Improve maritime access to Polynesia (a persistent and cross-cutting issue).

At present, maritime access for hydrocarbons to Polynesia is hampered by the shallowness of the Papeete Channel and limited storage capacity. While the latter are the responsibility of private operators who have set up storage companies in which they are joint shareholders, the management of the port works is the responsibility of the State. Deepening the channel would increase the volume transported per voyage, reduce unit costs and facilitate pooling between operators.

It would also increase competition by making the port accessible to larger vessels.

The issue of port capacity has already been examined in an AMF opinion on the distribution mechanisms in French Polynesia, in which a number of ideas were put forward:

The government has since taken up the issue. The Council of Ministers of 8 July 2021 stated: "In view of the disruption of maritime transport to French Polynesia and its impact on the country's supply, the government is planning to build a new port in a more suitable natural area, which would include a landing platform and a development zone for businesses (agro-processing, logistics, etc.).) / The aim is to meet the demand of shipping companies for a redevelopment of the port of Papeete and access with a deeper channel allowing larger container ships to pass through, which would make it possible to achieve economies of scale which would have a direct impact on the cost of international freight'.

The Authority welcomes this step forward.