

Oil Market Report – December 2011

Despite the usual issues of weather, congestion, suspicious border controls and currency fluctuations, Father Christmas once again pulled out all the stops and got the job done in December with few, if any, complaints from the global population under the age of 10.

It is no doubt rather a relief to Santa that he can power his sleigh by reindeer rather than diesel. Yes we accept that grain and animal feeds have increased over the last 12 months, but we are fundamentally only talking about 8 reindeer (9 if you count the show-boater, Rudolph) and a high intensity feeding regime for no more than 30 days in the run-up to Christmas.

On the other hand, if Santa's sleigh was diesel powered, he would be looking at a very different set of calculations. Looking back to last year, the price of wholesale diesel on Dec 24th 2010 was 44.50ppl and from this price, we exclude duty and VAT. This is on the basis that Santa is hopefully exempt from these 2 punitive taxes – the very least any government can do in recognition of his long-term contribution to the “Big Society”. Santa's credit rating should also be good. He has been around for a long-time and kept his business model simple – no fancy tricks with accounting and certainly no “transformational” restructuring.

All this means that getting deliveries of diesel in bulk (into his North Pole storage tanks) would be no issue for St Nicholas and this should perhaps improve his costs by circa 1-2 pence per litre (ppl) versus the forecourt pump price. That being said, even if Santa was filling his sleigh up at his local garage, the premium there is still minimal. For all the brouhaha in the media around petrol retailers fleecing the general public, the average forecourt still only takes 4ppl – 6ppl as gross profit and this has to cover all staff costs, rent, rates and general overheads. On an average volume of 2.5m litres per annum, a typical forecourt is generating a gross margin of circa £100K pa – hardly excessive...

So back to Father Christmas and fast forward 12 months to December 24th 2011. We now see the big man in red paying at the wholesale rate of 51.10ppl – an increase of 6.60ppl over 12 months. To understand what this increase means in pounds and pence, we have to calculate how much fuel Santa's hypothetical diesel sleigh actually uses. With a payload of every toy for every girl and every boy, it would be prudent to assume that Santa's sleigh will at least be the same size and capacity as a 44 tonne (44t) articulated lorry – the biggest truck currently allowed on UK roads. And even then, we would also have to assume that Santa has multiple pick-up / drop-off points around the world, staffed by support Elves and Fairies. Fuel consumption for a 44t artic is between 7 and 8mpg (or around 1.6 miles per litre) and the circumference of the world is circa 25,000 miles. If we consider that a global circumnavigation to include all countries, must surely increase the distance by a factor of 10 (rough guess), then we estimate that Santa will cover 250,000 miles and consume around 160,000 litres of diesel on 24th December. So now the impact of the 6.60ppl rise can actually be gauged and we see an increase in operational costs to the tune of £10,700. These higher costs of course have to be absorbed somewhere in the organisation and if we view it in human terms, this probably means fewer presents all round, a pay-cut for the Elves or even outsourcing of the logistics operation.

Fortunately, we don't have to view things in human terms – only magical terms. So Santa will always stick to his tried and tested methods and steer well clear of combustion engines. On that basis and unlike the rest of us, he doesn't need to worry about fuel prices in 2012 and will no doubt be all the happier for it. Happy New Year!