ENERGY REGULATION BOARD

Press Statement

Reactions to Petroleum Products Prices Increase by 15%

19th January 2010

Following the 15% fuel price increase of 12th January 2010, there have been mixed reactions from various stakeholders. While some have observed that the increase was inevitable, others have sought to attribute the price increase to reasons that tend to suggest the price increase could have been avoided.

In view of stakeholders' reactions to the price increase, we wish to highlight the key factors leading up to the price increase as follows:

- Before the 12th January 2010 price increase, the last price review was on 22nd December 2008 when pump prices were revised downwards by an average of 24% on account of the drastic decline in international oil prices and a favourable exchange rate of the Kwacha against the US dollar;

- The prices of crude oil have risen from US$40/bl in early 2009 to the current price of about US$82/bl. Consequently, the cost of a 90,000 metric tonne cargo has increased from US$ 40 million in February/March 2009 to US$70 million in December 2009;

- The cargo cost has gone up by 72% while the average international oil prices have gone up by an average of 110% over the period February 2009-Janaury 2010; and

- While the exchange rate appreciated by about 18%, the adverse impact of the 110% increase in the international oil prices and the 72% increase in the cargo costs nullifies the benefits of the exchange rate appreciation.

In addition, Excise duty on Diesel has been varied from 7% to the new rate of 10% with effect from 1st January 2010 and the new Tazama pumping tariff of US$53.52/ MT approved by the ERB on 16th December 2009, as opposed to the previous tariff of US$39/ MT.

In view of the foregoing, it is evident that a one-off price increase would have averaged about 32% as opposed to the Government subsidized increase of 15%

as announced by the ERB on 12th January 2010. Therefore, even with a 15% increase, fuel prices continue to be heavily subsidized by Government.

In light of the global economy slowly moving out of the recession and the demand for petroleum products beginning to increase, the international prices of oil have begun to surge upwards. As such, the Government has decided to partially reduce the price increase to 15% from the 32% increase that should have been effected as dictated by the economic fundamentals.

It should be emphasized that the above are the only reasons that led to the price increase and were taken into account when applying the *Cost Plus* pricing mechanism. Any other suggestions not relating to the above as to what may have led to the price increase are therefore not correct.

The upward changes in prices of feedstock in 2009 are shown in the table below:

Table 1: PETROLEUM FEEDSTOCK CARGOES IMPORTED IN 2009

CARGO	**DATE DOCKED**	**COST OF CARGO US$**	**Exchange Rate K/1US$**	**Avg. Oil Price (US$/bbl)**	**Implied Pump Price Change**
MT. Valiant	7th February 2009	40,382,543	5,700	39.09	+ 3%
MT. Jag Leela	24th March 2009	39,498,145	5,700	47.94	No change
MT. Paros Warrior	21st June 2009	56,386,222	5,200	69.64	+19%
MT. Amba Bhargavi	4th August 2009	53,426,548	4,900	71.05	-8.5%
MT. Antlantic Galaxy	26th September 2009	68,356,958	4,700	69.41	+16%
MT. Iron Monger	11th December 2009	69,608,293	4,700	82.00	+5.5%
One off price adjustment from December 2008 to January 2010 based on fundamentals without Government subsidy					32%

While we appreciate that the price increase has an effect on the cost of most socio-economic activities, it should be observed that completely disregarding the economic trends would have threatened the sustainable supply of petroleum products in the country in the near future.

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