



Press Statement

Adjustment of Petroleum Products Prices

11th May 2010

The Energy Regulation Board (ERB) wishes to inform the public that prices of petroleum products have been revised upwards by 13.18% (K882/litre) for petrol; diesel 9.5% (K598/litre); and kerosene 10.98% (K484/litre), based on Lusaka pump prices, with effect from midnight tonight.

The fuel price adjustment seeks to attain full cost recovery on this cargo. Government had been absorbing the costs that would have otherwise, made it necessary for fuel prices to be adjusted regularly. The fuel prices remained unchanged from December 2008 to January 2010 despite movements in the oil prices and the Kwacha/US\$ dollar exchange rate. Government absorbed the high costs so as to make fuel affordable, especially in the context of the global economic recession that characterized the global economy in 2009.

As the global economy is slowly moving out of the recession and the demand for energy/petroleum products is beginning to increase, the international prices of oil have begun to surge upwards. As such, the Government cannot continue to absorb the high costs associated with keeping pump prices artificially low. To this effect the fuel prices have been revised gradually to cost recovery levels, and as such in January 2010 the fuel prices were only increased by 15% instead of the 32% increase that was warranted by the economic fundamentals.

In addition, this price change also includes adjustments to margins of some components of the Cost Plus Pricing Mechanism.

The changes include, increases in margins for Oil Marketing Companies (OMC), dealers, transporters, the Strategic Reserve Fund (SRF) and introduction of a cost line to provide for holding of 15 days stocks by OMCs.

Margins for OMCs and dealers have been increased by 15%, while the SRF cost-line has been revised to K476.11 for petrol, K141.14 for diesel, K229 for Kerosene and Jet A1 and K286.26 for Heavy Fuel Oil and Liquefied Petroleum Gas. The downstream petroleum sub-sector margins were last reviewed in March 2007. Since then, the industry has been experiencing adverse movements in inflation; fluctuating exchange rates; rising operating costs; and general challenging operational environment, especially in the wake of the global financial crisis.

The 15 days stocks cost line has been introduced at K65 per litre. This cost line is intended to cushion the country from petroleum products shortages by ensuring compliance with provisions of Statutory Instrument No. 90 of 2005, which compels OMCs to hold 15 days operational stocks. Adjustments have also been made to transporter margins as listed in Table I below.

Table 1: Transporters Margins

TOWN	TRANSPORT CHARGE (from Ndola Fuel Terminal)
Chipata	514
Kabwe	116
Kasama	413
Livingstone	453
Lusaka	184
Mansa	370
Mongu	486
Ndola	50
Solwezi	170

With regard to international oil trends, prices have since the beginning of this year been fluctuating in the range of US\$70-80 per barrel, but prices have increased to US\$85.17 per barrel under US benchmark WTI since the beginning of May 2010. On the other hand, the exchange rate has, on average, been stable from October 2009 to April 2010 at about K4, 666. However as at 7th May, the exchange rate recorded rapid depreciation with the exchange rate closing at K 5,060/80 US\$1 according to Standard Chartered Bank rates.

The current price change is based on the 94,000 Metric Tonnes cargo, *Mt. Sea Voyager*, which docked in March 2010 and has been priced using the Cost Plus Model.

Indicative pump prices, based on provincial centers are as indicated in table 2 below:

TABLE 2 : INDICATIVE AVERAGE PUMP PRICES IN PROVINCIAL CENTRES IN KWACHA PER LITRE

TOWN	PETROL	DIESEL	KEROSENE
	<i>NEW MKT AVERAGE</i>	<i>NEW MKT AVERAGE</i>	<i>NEW MKT AVERAGE</i>
Kasama	8,390	7,717	5,598
Livingstone	8,030	7,355	5,288
Chipata	8,229	7,556	5,460
Solwezi	7,825	7,150	5,111
Ndola	7,461	6,786	4,798
Lusaka	7,573	6,898	4,893
Kabwe	7,543	6,868	4,868
Mansa	8,252	7,579	5,480
Mongu	8,337	7,664	5,553

The above prices are the maximum prices at which fuel at the pump should be sold.

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