



## Ministry of Finance and National Planning

### BRIEF ON THE REVIEW OF THE TAX REGIME ON PETROLEUM PRODUCTS JUNE 2008

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Members of the public will be aware that, in the past three (3) years, the world as a whole has experienced unprecedented increases in oil prices. These increases have been as follows:-

- In 2005 from US\$39 in January to US\$58 per barrel by the end of the year.
- In 2006 from S\$58 to US\$70 per barrel.
- In 2007 from US\$70 to US\$90.00 per barrel.
- In 2008 from US\$90 to about US\$140 per barrel by the end of June.

This upswing in the price of oil has also greatly affected the procurement of petroleum feedstock that the Government has been facilitating. For a 90,000MT cargo of petroleum feedstock, the procurement cost has over the last 7 months increased as follows:-

- US\$71.5 million in December 2007
- US\$75.0 million in February 2008
- US\$94.3 million in May 2008, and
- US\$118 million for the cargo due in July 2008.

This represents an increase of 66 percent in the cost of crude oil or feedstock imported in Zambia between December 2007 and July 2008. In an effort to mitigate the increasing prices of oil on the Zambian consumer, the Government has been subsidizing the petroleum pump prices since October 2007 and has spent K96 billion. Had the Government not subsidized, the pump price for petrol and diesel would have been K10,742 and K8,989 per litre respectively in July 2008.

In view of the frequent and persistent increases in prices of oil, continuing to subsidise oil through the budget is becoming

unmanageable. In view of this, the Government has, with immediate effect, decided to review the excise duty on fuel as follows:-

- a) Diesel from 30% to 15%;
- b) Petrol from 60% to 45%;and
- c) On kerosene the duty currently at 15% has been removed.

The table below shows the details of the excise duty reductions and the revenue implications.

	<u>Product</u>	<u>Current Rate</u>	<u>New Tax Rate</u>	<u>Revenue Loss</u>
1.	Diesel	30 %	15 %	K90 Billion
2.	Petrol	60 %	45 %	K35 Billion
3.	Kerosene	15 %	0 %	K2 Billion

The total revenue loss as a result of these reductions in tax rates for the remainder of the year will be K127 Billion.

While these measures will mitigate the pump prices of fuel, they will not lead to price reductions as oil prices are projected to continue to increase. The impact of these measures will only be to reduce the levels at which the pump prices will increase. The following are therefore the new pump prices with immediate effect after the tax reductions:-

Product	Current Price	New Price	Without Measure
Diesel	K6,400/litre	K7,237/litre	K7,325/litre
Petrol	K7,616/litre	K8,355/litre	K8,743/litre
Kerosene	K4,690/litre	K5,104/litre	K5,282/litre

It is evident from the price levels indicated above that the measure taken by the Government of reducing taxes has a positive impact on

pump prices. It has been done in the clear understanding that uncontrolled oil prices would have had a negative impact on the outcomes of our economic activities. We expect the fuel consumers to supplement the Government's efforts by being judicious in the use of this important imported input in their operations.

Thank you and God bless you.

Hon. Ng'andu P. Magande, (M.P)

**Minister**

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