

# Press Statement

## Adjustment of Fuel Prices

**Date of Issue: Tuesday 2<sup>nd</sup> October 2018**

The Energy Regulation Board (ERB) has reviewed the current petroleum feedstock cargo together with the finished products component of the consignment, and determined that there shall be an upward adjustment in prices per litre by **K2.31 for Petrol, K2.64 for Diesel** and **K2.49 for Kerosene**, due to changes in the fundamentals that determine fuel prices.

The key drivers for this price review are the international oil prices and the exchange rate of the Kwacha against major trading currencies, especially the US Dollar. During this price review period the Government imported the following consignments at a total cost of US\$169.07 million:

- 102,610 metric tonnes (MT) of crude petroleum feedstock cargo;
- 14,689.56 m<sup>3</sup> of petrol and 61,084.10 m<sup>3</sup> of diesel as finished petroleum products; and
- 15,256.11m<sup>3</sup> of petrol and 15,151.52m<sup>3</sup> of diesel under the Saudi Arabia Government to Government deal.

It should be noted that the Saudi Arabia deal translates to about 13 days stock of petrol and about 6 days stock of diesel for the Zambian market. It therefore had minimal impact on the general supply patterns and consequently the local prices of petroleum products.

In line with Government policy, fuel prices are determined on the basis of each cargo of petroleum feedstock and finished petroleum products imported. Each cargo lasts for about 60 days on average and prices are determined to ensure full cost recovery, among other considerations. This price review is based on the *Cost Plus Model* used to determine fuel prices.

It should be noted that the last upward price review was on 12<sup>th</sup> February 2018. Despite subsequent cargos being assessed, there were no price adjustments on 9<sup>th</sup> April 2018 and 15<sup>th</sup> June, 2018 as the required adjustments were below the ERB set threshold of 2.5 percent. Further, the 14<sup>th</sup> August 2018 price review could not be implemented as there was need to take into account the Saudi Arabia cargo which was due to arrive separately.

Specifically, from the last fuel price adjustment on 12<sup>th</sup> February 2018, the price of petrol (from Arab Gulf) rose by 10.28% from an average of US\$74.92/bbl in February 2018 to an average of US\$82.62/bbl in August 2018. Meanwhile, the price of diesel (Arab Gulf) rose by 13.79% from an average of US\$76.24/bbl in February 2018 to an average of US\$86.75/bbl in August 2018.

Further, since the last price adjustment on 12<sup>th</sup> February 2018, the Kwacha depreciated by 7.89 percent from a monthly average of K9.89/US\$ in February to an average of K10.67/US\$ in September 2018. Meanwhile, due to volatility of the Kwacha in the last two weeks of September 2018, the daily exchange rate averaged K12.50/US\$ implying a depreciation of 26.39% since the last price adjustment in February 2018.

The upward movement in the price of crude oil and prices of finished products on the World market as well as the depreciation of the Kwacha against the US Dollar have resulted in an increase in the fuel importation bill for the current import consignment in Kwacha terms. If no price adjustment is made, the money spent on the current consignment would not be fully recovered, in which case Government would incur a loss of US\$29.8 million.

In addition to these fundamentals, the ERB has also reviewed upwards margins for petroleum downstream players in the petroleum sub-sector. The margins were last reviewed in 2016 and have since eroded and adversely affected the financial viability of the said players namely Oil Marketing Companies, Petroleum Transporters and Service Station operators. It should be noted that the increase in margins has had a direct bearing on fuel prices as they too are a cost-component of the pump price build-up.

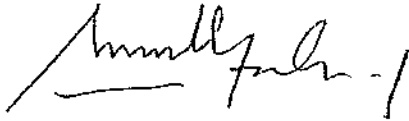
This price adjustment is therefore necessary to make procurement of petroleum products self-financing so that availability of petroleum products is guaranteed and security of supply is assured.

Based on the foregoing, the old and new retail prices **per litre** are presented in the table below:

<b>NATIONAL UNIFORM PUMP PRICES K/Litre</b>			
<b>PRODUCT</b>	<b>CURRENT</b>	<b>NEW</b>	<b>ABSOLUTE VARIANCE</b>
<b>PETROL</b>	13.75	16.06	2.31
<b>DIESEL</b>	12.01	14.65	2.64
<b>KEROSENE</b>	8.85	11.34	2.49
<b>LSG</b>	14.30	16.94	2.64

The new fuel prices are effective at midnight, tonight Tuesday 2<sup>nd</sup> October 2018.

**THE BOARD CHAIRMAN**



**MR. RAYMOND MPUNDU**

**BY ORDER OF THE BOARD**