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ENERGY REGULATION BOARD

Press Statement

Fuel Pump Prices in light of Current International Oil Trends and Kwacha Performance

23rd April 2020

The Energy Regulation Board (ERB) has determined that the current gains from the sustained reduction in international oil prices have been negated by the depreciation of the Kwacha during the same period, resulting in there being no price changes made since the last review in December 2019.

Since the last price adjustment on 26th December 2019, international oil prices have dropped from around US$69 to below US$30 per barrel, while the exchange rate of the Kwacha against the United States Dollar has risen from K14.40 to about K18.66.

The ERB has particularly been monitoring movements in international oil prices *vis-à-vis* performance of the Kwacha against the United States Dollar, because the two are the major factors that directly impact local fuel prices.

As prices are reviewed for every cargo, on average every sixty days, the March 2020 price preview that was conducted on a cargo procured in January 2020 when the international oil prices had not yet started to experience a downward trend; and the Kwacha had started to depreciate steeply, did yield minor price variations. However, due to the projected extreme volatility in the two fundamentals at the time and also considering that the changes would have been below the 2.5% trigger band for price adjustment, it was prudent to maintain the prices.

Notably, over the last twelve months, international crude oil prices have been decreasing on the global market by over 50% between April 2019 and April 2020. The decrease is largely attributable to the collapse of the OPEC agreement; market share wrangles between Saudi Arabia and Russia and the drop in global oil demand in the wake of the global pandemic COVID19 and the subsequent lockdowns in different countries.

During the same period, April 2019 to April 2020, the Kwacha on the other hand has been consistently depreciating against the United States Dollar by as much as 50%. Notably, a steeper depreciation was recorded in the first four months of 2020 when the Kwacha depreciated by K4.22 from K14.44/US$ in January 2020 to K18.66/US$ in April 2020. The depreciation of the Kwacha has been mainly attributed to reduced supply of foreign exchange due to slowing down of economic activity. As such, the current Kwacha volatility could result in either over pricing or underpricing of fuel, both of which would negatively impact consumers and security of supply, respectively.

As can be seen from the trends, the two key fundamentals that impact local pump prices have been moving in opposite directions, thereby cancelling out the gains that would have translated into reduced local pump prices over time.

It should also be noted that unlike some other countries, Zambia's fuel needs are met through the importation of commingled feedstock, a mixture of crude oil, finished products and other components on one hand, and refined petroleum products such as petrol and diesel on the other. Domestic fuel price adjustments are aligned to the period it takes to consume the imported petroleum products, which translates to about every sixty days. As such, even if international oil prices fall during the period when the current cargo is being consumed, the perceived benefit is not immediately passed on in form of a domestic price reduction not until the current consignment is fully consumed. In this case, benefits would only be passed on if, and only if, procurement was made during the period, such as now, when the international oil prices are low.

Suffice to mention that Zambia has not had any importation of crude petroleum feedstock since January 2020, as Indeni has been on industrial maintenance shutdown. In the interim the Government has relied on importation of finished petroleum products that are being supplied by Oil Marketing Companies, who have been given waivers to import. Further, it should be noted that the price trends for finished petroleum products are not comparable to those of crude oil.

Pricing of fuel in Zambia is currently based on the ***Cost Plus Model,*** which mainly takes into account movements in the two fundamentals - the international oil prices and the exchange rate. If the two factors move in the same direction, the overall impact on local fuel prices is normally higher or greater. On the other hand, where movements are in opposite directions the result is a mild impact or none at all because the gains from one factor are cancelled out or reduced by the other factor moving in the opposite direction.

In the short to medium term, it is anticipated that the two fundamentals impacting fuel prices would continue to be stressed, due to scaled down economic activity not only in Zambia but globally due to the COVID19 outbreak. Be that as it may, every cargo imported would be assessed and optimum local prices determined as per practice.

Lastly, it should be noted that in view of the current trends, proposals have been made on options for leveraging on current low global prices and possibility of locking in sufficient low priced cargo orders to take advantage of the low international oil prices. A cheaper importation now if assisted by a moderate exchange rate would translate into lower domestic prices.

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KWALI MFUNI (Ms.)
PUBLIC RELATIONS MANAGER

NOTES TO THE EDITOR:

The ERB uses the Cost-Plus model when determining fuel prices which operates on the principle of full cost recovery along the petroleum value chain. As such, in order to recover costs to enable Government to purchase the next cargo, fuel has to be sold at a price that takes into effect all the cost elements.

Murban is the crude oil type that is mostly imported by Government as it best meets our specifications. This in addition to being the closest to access as opposed to West Texas Intermediate (WTI) and Brent crude oil.

Members of the public and interested parties are encouraged to call the ERB Toll Free Line **8484** for any additional information.