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Press Statement

Pricing of Petroleum Products in Zambia

8th May, 2020

Further to the continued volatility in international oil prices and the expected impact on pricing of local petroleum products in Zambia, the Energy Regulation Board (ERB) wishes to further clarify some of the issues raised following our last statement issued on 24th April 2020 on the subject matter. This clarification also seeks to address questions raised by stakeholders relating to the expected impact of current international oil prices on local pump prices.

The ERB determines petroleum product prices within the current policy framework and guidelines, which seek to assure security of supply on one hand and full cost recovery, on the other. The pricing of petroleum products is governed by the **Energy Regulation Act, No. 12 of 2019** following the repeal of Cap 436, recently.

Zambia does not import pure crude oil but commingled or spiked petroleum feedstock, which is a mixture of about 45% diesel; 40% pure crude; and 15% condensate/naphtha. It should be noted that the product whose prices recently plummeted is West Texas Intermediate (WTI) crude oil and Murban crude which is part of the commingled petroleum feedstock, which Zambia imports. Of the three common pure crude types namely, WTI, Brent and Murban, the type whose prices have fallen the most in the recent past is WTI, which even recorded negative prices in April 2020.

Therefore, in the case of Zambia which imports a commingled feedstock, a typical importation, all things being equal, would still produce different prices from those of pure crude oil.

In Zambia, the final pump price has to reflect the following costs: (1) the cost of imported spiked crude (petroleum feedstock); (2) the cost of finished products that are refined from imported feedstock at INDENI; and (3) the cost of finished petroleum products imported into the country by rail and road. Notably, these fuel supply lines come with different cost profiles. Thus, the final pump price is basically a weighted average of the **spiked crude oil; refined petroleum products and imported finished petroleum products**.

Furthermore, these different cost profiles have to be recovered from a single uniform pump price, consistent with Government policy. It is critical to note that in deriving the final pump price, some cost elements are market based while others are not. That is to say, some cost elements are **exogenous** to the dynamics in the international market. For example, excise duty is volume based while VAT is percentage based. In addition, the cost build-up also accounts for other statutory and regulatory fees and charges.

Therefore, price adjustments are only triggered when ERB applies the ***Cost Plus Model*** to the most recently imported **commingled feedstock** (spiked crude oil**)** and accompanying refined petroleum product imports. This forms the basis upon which ERB determines the revised pump prices.

Notably, most comparator countries in the region do not have refineries like we do, and for those countries, all their imports are finished products which therefore are immediately impacted by falling international oil prices. That is because their pricing is internationally benchmarked and adjusted approximately on a monthly basis to reflect international movements in cost parameters. This pricing mechanism is termed as Import Parity Pricing (IPP).

However, in Zambia, pricing reviews are done only after the imported commingled feedstock, locally refined products and imported finished products are fully consumed, about every 60 days. This means that prices derived from the Cost Plus model and those from the Import Parity would be fundamentally different in terms of quantum and the time it takes to respond to changes in international oil prices.

Clearly and without doubt, the fall in international oil prices has been significant and certainly, any importation of petroleum products at this opportune time, if assisted by a stable and strengthened local currency, could result in a commensurate reduction in pump prices.

It is important to acknowledge that the principles that govern full cost recovery, self-financing and ability to meet supplier obligations must remain fundamental to any pricing decision. The stated principles must be upheld to ensure security of supply and therefore any pricing decision has to be made cautiously. Further, events such as the impact of the Covid-19 that has impacted these principles of pricing sustainably must be fully acknowledged. For instance, the slowdown in the economy as a result of Covid-19 has already resulted into reduced imports, reduced uplifts and corresponding reduced sales of petroleum products from TAZAMA depots which entails that a cargo is taking much longer to be consumed on the local market and therefore delaying the importation of lower priced subsequent cargos.

ERB would like to assure the nation that it is alive to the current dynamics in the international oil prices and is positioned to take advantage of this situation at an opportune time consistent with the uniqueness of our fuel supply, marketing and pricing system.

KWALI MFUNI (MS.)
MANAGER PUBLIC RELATIONS
ENERGY REGULATION BOARD

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 is 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.