



Press Statement

MONTHLY BULLETIN ON WHOLESAL IMPORT PARITY PRICING OF PETROLEUM PRODUCTS

1.0 INTRODUCTION

On 15 June 2004, the Energy Regulation Board (ERB) introduced a pricing mechanism for petroleum products based on Import Parity Pricing (IPP). The method achieves this by a monthly adjustment of prices in such a way that they reflect international cost trends of production, refining and transportation of petroleum products. Under the new pricing mechanism, domestic wholesale and retail prices of petroleum prices change on the second Wednesday of each month to reflect changes in the international price of crude oil and the exchange rate of the Kwacha to the US Dollar. Essentially the pricing model, determines the cost of importing products in Zambia and applies a discount to arrive at a benchmark wholesale price for INDENI Petroleum Refinery.

In reviewing the prices each month, there are two major variables considered:

1. International prices of finished products using information from independent, readily available sources; and
2. The average monthly exchange rate as provided by the Bank of Zambia

2.0 INTERNATIONAL TRENDS

In the month of January, gasoline prices rose by 50% since the end of December triggered by concerns over US supplies exacerbated by looming US refinery maintenance and the change in specifications towards the replacement of MTBE (an octane enhancer) by ethanol as an oxygenate in gasoline blending this year. The switch will limit gasoline output at a time of already constrained refining capacity following Hurricanes Katrina and Rita.

Prices of petroleum products on the international market rose significantly from December 2005 into the first week of January 2006 dropping slightly

into the second week before steadily rising again through to the end of the month. These changes reflect the following variation in prices given that the same parameters used in the last adjustment are applied:

- **Petrol prices on the world market based on the average price on the International market when compared to those in December, have increased by 10.52% from \$60.86/barrel to \$67.26/barrel on average.**
- **Diesel prices, have also registered an increase of 8.38% from \$62.99/barrel registered in December to \$68.27/barrel.**
- **Kerosene - Jet A 1 prices have also increased by 8.38% from \$67.75/barrel to \$73.43/barrel**

3.0 EXCHANGE RATE

The Kwacha appreciated from K3,449 to 1 US\$, used during the last adjustment to K3, 395 to 1 US\$ being the actual average inter-bank exchange selling rate for the month, representing an appreciation of 1.6%.

4.0 DOMESTIC PRICES Wholesale Prices

Domestic wholesale prices for petroleum products are expected to change as follows on 8th February 2006.

	Kwacha Prices ZMK/m ³		
	Current	New	Absolute Change
Premium	1, 942,748	2, 107,623	164,875
Diesel	2,192,916	2,181,731	-11,185
Kerosene	2,134,262	2,303,884	169,622
Jet A1	1,982,392	2,138,117	155,725

From the above tables:

- Petrol wholesale prices would **increase** from K1,943/L, to K2,108/L

- The price of Diesel would remain **unchanged** at K2,193/L because the change in price falls below the set trigger band of 2.5%;
- The price of Kerosene **increase** to K2,304/L; and
- Jet A1 would also **increase** from K1, 982/L to K2, 138/L.

5.0 LUSAKA BENCHMARK PUMP PRICES

The average pump prices in Lusaka will change as follows:

PRODUCT	PUMP PRICES K/Litre		ABSOLUTE VARIANCE (K/Litre)
	Current	New	
Petrol	4,761	5,066	305
Diesel	4,433	0	0
Kerosene	3,316	3,505	189

The ERB reiterates that the projected changes of the pump prices are merely a guide since the prices are subject to market competition.