



# Press Statement

## Fuel Price Adjustments

17<sup>th</sup> January 2007

The Energy Regulation Board (ERB) wishes to make the following clarifications regarding petroleum product pricing in Zambia.

### 1. Factors Determining Petroleum Products Price Adjustments

The ERB determines the wholesale prices of Petrol, Diesel, Kerosene and Jet A1 using the Import Parity Pricing (IPP) mechanism, which was introduced in June 2004. Under this pricing mechanism, domestic wholesale and retail prices of petroleum products are adjusted every second Wednesday of each month to reflect changes, in:

- i. International oil prices;
- ii. International freight charges; and
- iii. the exchange rate of the Kwacha to the US Dollar based on the monthly average interbank exchange rates from Bank of Zambia (BOZ).

### 2. Price Trends on the International Petroleum Markets

Price adjustments for any given month are based on an average of the **previous** months' parameters for the three main factors already outlined above. Therefore, the parameters used in the recent price adjustment of January 2007, were based on December 2006 product prices on the international oil markets and inter bank exchange rates.

As has been reported from the international petroleum markets, product prices for the month of January 2007 have exhibited a downward trend. These price changes will be reflected in the fuel price adjustment for February 2007.

It must be noted however, that as earlier outlined, the parameters are an average of the entire month in the preceding month. In December 2006, the average price of Petrol, Diesel, Kerosene and Jet A1 on the international market for the overall month increased when compared to those pertaining in November 2006.

### 3. Effects of the Exchange Rate on Petroleum Product Pricing

Zambia imports all its petroleum requirements from the international markets where pricing is in US\$. Therefore any fluctuations in the local exchange rate will have an effect on domestic fuel prices.

During the first half of 2006 when the Kwacha appreciated markedly, there was a cushioning in the level of fuel price increments on the local market against increasing oil prices on the international markets.

Between September 2005 and March 2006 when the Kwacha traded between K4,469 and K3,316 against the US\$ respectively, fuel prices reduced. For example, Petrol prices reduced from K6, 022 in September 2005 to K4, 745 in March 2006. Diesel prices reduced from K5, 348.00 to K4, 207.00 during the same period (see table below). While other factors did affect the price reductions, the exchange rate played a major part in the gradual reduction in prices over a period of time. It will also be noted that when the Kwacha became weaker in later months, coupled with increasing international prices, price increments on the local market took place.

#### Trends in Pump prices and exchange rates from September 2005 to March 2006

MONTH	AVERAGE LUSAKA PUMP PRICES			EXCHANGE RATE (K/US\$)
	PETROL (K/L)	DIESEL (K/L)	KEROSENE (K/L)	
September 2005	6,022	5,348	3,984	4,469
October 2005	6,019	5,351	3,984	4,379
November 2005	5,744	5,349	3,957	4,049
December 2005	5,121	4,774	3,505	3,449
January 2006	4,761	4,433	3,316	3,395
February 2006	4,761	4,433	3,316	3,311
March 2006	4,745	4,207	3,458	3,316

### 4. The Effect of INDENI on Petroleum Product Prices

INDENI Petroleum Refinery receives petroleum feedstock via the TAZAMA pipeline. This is the cheapest mode of transportation as shown in the table below.

#### Comparative Transport Charges from Dares-salaam to Ndola

TRANSPORT MODE	COST/MT (US\$/MT)
PIPELINE	39
RAIL/ROAD	169
ROAD	200

In instances when INDENI is shutdown, such as now, importation of finished petroleum products to meet local demand is carried out through rail and road transport. These transportation modes are more expensive than pipeline and rail transport.

## **5. Conclusion**

The Import Parity Pricing method is intended to make fuel pricing as transparent as possible, given the factors highlighted. However, this methodology is also subjected to regular review to ensure that it remains relevant to our Zambian situation and the general principles of competitive pricing.

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