

Press Statement

Petroleum Pump Prices Revised

13th July 2015

The Energy Regulation Board (ERB) has adjusted the pump price of petroleum products by K1.13 for petrol; K1.00 for diesel; K0.72 for kerosene and has maintained the price of low sulphur diesel (diesel), effective midnight of **13th July 2015**. Consequently, the prices will now be as follows:

Table 1: Proposed National Uniform Pump Prices (K/Litre)

Product	Current	New	Absolute Variance
Petrol	8.74	9.87	1.13
Diesel	7.59	8.59	1.00
Kerosene	5.40	6.12	0.72
Low Sulphur Gasoil	10.88	10.88	0.00

The two key factors that determine wholesale and pump prices are international oil prices and the domestic exchange rate. International oil prices have remained relatively stable during this review period, while the exchange rate has been volatile.

In May 2015, the Board of the Energy Regulation Board resolved to adjust petroleum prices upwards due to the significant depreciation of the Zambian Kwacha against the United States Dollar when the Kwacha reached an all-time high of K7.80/USD from an average of K6.50/USD to K7.42/USD. The Board also agreed that the price adjustment would be effected in 2 parts to moderate any price shock in the economy.

Since the last price adjustment in May 2015, the Kwacha has ranged between an average of K7.26/US\$ and K7.76/US\$ in July 2015 (depreciation of 6.89%). The Kwacha is currently trading at an average of K7.8 to the US dollar. It is projected that the Kwacha to the US dollar exchange rate will hold at this high level for the duration of the consumption of the current petroleum products.

The depreciation of the Kwacha has mainly been caused by the global strengthening of the US dollar against major currencies; low copper prices; and weak foreign currency inflows.

With the continued poor performance of the Kwacha against the dollar, it has now become imperative to implement the second phase of the price adjustment in line with cost reflectivity and the principles of the Cost- plus Pricing model.

The Cost-Plus model on which fuel pricing is premised works on the principle, that all the costs in the supply value chain are fully recovered at the pump price. This has become critical following the removal of fuel subsidies in April 2013. Prior to this period, fuel prices were subsidised by government which eventually led to the accumulation of arrears to the detriment of other competing social and economic programmes. The subsidy regime led to a situation where fuel procurement and marketing became non self-financing and posed a threat to future fuel supplies.

Therefore, in the absence of subsidies, fuel pricing will ensure that there is significant cost recovery so that enough revenue is realised from the sales, to purchase sufficient US dollars at the prevailing rate.

Without any proven petroleum reserves and any readily available substitute for petroleum, Zambia will continue to be subjected to changes resulting from fluctuations in the international oil prices; and the exchange rate between the Zambian Kwacha and the United States Dollar. As a landlocked country, Zambia's petroleum prices will also tend to be higher than the countries that have access to a port.

Periodic fuel price adjustments are therefore essential to ensure that there is full cost recovery in the supply chain, and thereby ensuring that there is enough revenue to procure future petroleum feedstock cargoes and finished petroleum products. These adjustments may also be downwards to ensure that any positive developments are passed on to the consumer.

The Energy Regulation Board will continue to ensure security of supply through cost reflective pricing for each cargo and for all imported finished products. For a product that draws a significant amount from our national income it is not only important that we pay the correct price but also use it as efficiently as possible.

By Order of the Board

ENERGY REGULATION BOARD