

**MINISTERIAL STATEMENT**  
ON THE  
PROCUREMENT OF OIL FROM SAUDI ARABIA  
BY THE  
HON. MINISTER OF ENERGY, MR NKHUWA, MP

Madam Speaker, I would like to sincerely thank you for this opportunity to update the nation, through this august House, on the procurement of fuel from Saudi Arabia through a Government to Government loan.

Madam Speaker, as the House is aware, Zambia is a landlocked country with no proven reserves of crude oil. Therefore, Zambia imports all here petroleum products requirements. Petroleum is supplied into Zambia via crude oil pipeline running a distance of 1,710 km from Dar-es-salaam, Tanzania to Ndola Indeni Refinery, Zambia and road trucks carrying refined products from Tanzania, South Africa and Mozambique.

Madam, the procurement discussion of the Saudi fuel become in 2014 when the Saudi Fund for Development (SFD) offered the Zambian Government a loan of US\$20 million towards the supply of petrol and diesel by the Saudi Aramco Product Trading Company (Aramco Trading), up to the port of Dar-es-salaam.

Aramco Trading is a South Arabian national petroleum and national gas company with the world's largest proven crude oil reserves. The contract that was signed in February 2015, with Aramco Trading was for the supply of 1.3 million litres of petrol which is equivalent to sixteen days of national consumption and 27.2 million litres of diesel which is equivalent to thirteen days of national consumption.

Madam Speaker, I wish to dispel rumours by the general public that the deal was signed by His Excellency the President of the Republic of Zambia at the time when he made a visit to Saudi Arabia in 2015. It must be clear that His Excellency the President and his delegation at that time,

had discussions with the business community in Saudi Arabia on various opportunities from investment into different sectors of the economy, including energy.

Madam, with regard to the petroleum sector, it was agreed, in principle, between His Excellency the President and the business community in Saudi Arabia that the SFD would facilitate the supply of cheap fuel to Zambia. There was no agreement signed as the decision had to be formalised by the technical teams from both countries.

Madam Speaker, the contract between the Government and Aramco Trading could not be implemented in 2015 as envisioned due to logistical reasons which include, approval process with the Ministry of Justice, Ministry of Finance and Bank of Zambia in order to reach the financial closure. Consequently, the financial agreement with the SFD was not signed in 2014 as expected. Nevertheless, following our commitment to adhere to the conditions of the facility, the financial agreement was signed in 2016, which facilitated the signing of a new contract with Aramco Trading in 2018.

Madam, hon. Members of the House may wish to note that although the financial agreement was signed in 2016, my ministry still had few processes to conclude such as opening a letter of credit, legal clearance of requisite agreement, just to mention but a few, to facilitate the signing of the new contract with Aramco Trading.

Madam Speaker, hon. Members of this House may wish to note that at the time the deal was signed in 2015, the anticipated impact of fuel from Saudi Arabia was a perceived reduction in the price of fuel to K5.00 per litre at the pump. I wish to take this opportunity to clarify that the K5.00 was initially estimated landed cost and not the pump price because it excluded inland costs such as transport and dealer margins, amongst others.

Madam, it is worth noting that in view of the period between 2015 and 2018, a number of variables have changed which have influenced the price of fuel to increase. Variables include; the fluctuation of the Kwacha against the US dollar, that is, the average exchange rate in 2014 was K6.1 to US\$1. Today, it is at K12.2 to US\$1. The international oil market price, that is, the

crude oil price was at US\$49.49 per barrel while it stood at US\$78.25 barrel between February and September, 2018. These variables have doubled and further inland costs such as transport costs have also changed over the period. As you may be aware, these are major economic fundamentals which determine the pump price of fuel in Zambia.

Madam Speaker, I would like to inform this august House and the general public that the expiration of the initial contract signed in 2015 and the advent of a new contract with Aramco in 2018 culminated into supply of reduced quantities to 15.3 million litres of petrol and 15.2 million litres of diesel. The 15.3 million litres of petrol represents twelve days consumption based on the daily consumption of 1.3 million litres while 15.2 million litres represents six days stock of diesel consumption based on daily consumption of 2.5 million litres per day.

Madam, currently, 10 million litres of diesel have been received at our GRZ depot while 699,222.88 litres of petrol is in transit. This leaves a balance of 5.3 million litres of diesel and 14.6 million litres of petrol to be delivered.

Madam Speaker, at the time when the fuel from Saudi Arabia was arriving at the port of Dar-es-salaam in August, 2018, the fuel refined at Indeni Refinery and the imported fuel had a landed cost of 8.18 litres for diesel and 8.3 litres for petrol while the landed cost of the fuel from Saudi Arabia was at 8.79 litres for diesel and 8.76 litres for petrol as opposed to the anticipated K5 per litre within this period. We have seen the Kwacha depreciate by 26.39 per cent from February, 2018 to date. The price per litre of Saudi fuel was slightly higher due to the specifications of the product. The diesel imported from Saudi Arabia is Ten Past Per Million (10PPM) of sulfur content while we currently received Fifty Past Per million (50PPM) of sulfur content. This means that the diesel that was received was of a more superior quality than the one which we normally receive which is 50PPM.

Madam, in the case of petrol, the Research Octane Number (RON) is ninety-five while our imports are at 93. I would like to make sure that I clarify this particular point. The octane number 95 is superior to 93 whereas the other side, it is the opposite. Ten is superior fifty. It should be noted that at the time of the discussions of the contract with Aramco Trading, the highest specification for diesel and petrol had a competitive price.

Madam Speaker, further to the above, it should be noted that a US\$20 million loan from the SFD does not include logistics of transporting the fuel from the port of Dar-es-Salaam to Zambia. Therefore, the Government had to source for funds for logistics. This also added to the increase in the cost of fuel.

Madam, in light of the changes in the economic fundamentals, the impact of current petrol and diesel quantities from Saudi Arabia will not affect the current pump price as the Energy Regulation Board (ERB) computes the average price based on the combination of petroleum products coming from Indeni and other suppliers of finished products.

Madam speaker, considering that the petrol and diesel being supplied by Aramco Trading under the hospices of the SFD will not be sufficient to meet national consumption requirements, the following is being undertaken:

- (a) The Government through my ministry will continue to procure petrol and diesel from the current suppliers of finished products in order to supplement products from Indeni Refineray Company Limited. This is because the fuel from Saudi Arabia can last for about six days for diesel and 12 days for petrol;
- (b) Under the current circumstances, we have specifications that have a higher price on the international market. We are currently evaluating the Saudi facility with the view of determining the next course of action.

Madam Speaker, I would like to inform this august House that while the fuel from Saudi Arabia has not had the anticipated impact on price, it has never the less created employment opportunities for our citizens and empowered our local transporters. Currently, the Government, under the unwavering leadership of His Excellency the President of the Republic of Zambia Mr Edgar Chagwa Lungu, has specifically allocated transportation of fuel coming from Saudi Arabia to Zambian registered transporters.

Madam, allow me to address some of the issues surrounding the current adjustment of fuel prices as was alluded to earlier. There are two key factors that determine the price of fuel in Zambia and these are international oil prices and the exchange rate of the Kwacha against the US Dollar. In addition, fuel prices are determined on the basis of each cargo of petroleum feed stock and finished petroleum products imported. Each cargo lasts for forty-five days on average and prices are determined to ensure full cost recovery among other considerations.

Madam Speaker, as the House is well aware, the Kwacha has depreciated against major currencies, for example, the US Dollar. This depreciation in the exchange rate has had an adverse effect on domestic fuel prices due to the poor performance of the Kwacha against the US Dollar. It had become imperative to have a price adjustment on 3<sup>rd</sup> October 2018 in line with the cost reflectivity principles of the cost plus pricing model which the Energy Regulation Board (ERB) is currently using to determine the pump price.

Madam, my ministry in consultation with the ERB is making tireless efforts to reduce fuel prices. However, the Government cannot prevent the price of petroleum products from increasing or reducing but can only optimize and revise its price build-up costs in liaison with other stakeholders. Further, the Government is currently looking at models which can benefit the Zambian people to ensure optimal prices.

I thank you, Madam Speaker.