

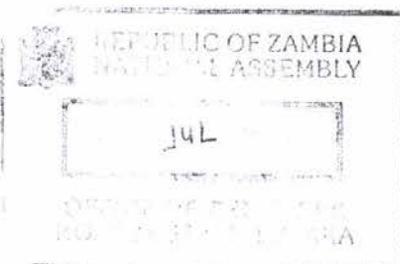


REPUBLIC OF ZAMBIA

MINISTRY OF MINES, ENERGY AND WATER DEVELOPMENT

MINISTERIAL STATEMENT TO THE NATIONAL
ASSEMBLY ON THE REMOVAL OF THE SUBSIDY ON
FUEL

JULY 2013



Mr. Speaker,

I would like to take this opportunity to address this August House on the topical issue of the fuel subsidy that was recently removed by Government. From the onset, it is worth noting by the House that Government has not entirely removed all subsidies on fuel but has in fact retained the subsidy relating to Uniform Petroleum Pricing (UPP). I will speak about the UPP and its effects later in my address. It is also worth noting that fuel subsidies were introduced by the MMD Government supposedly to cushion the poor and vulnerable in society.

However, current evidence suggests that the poor have not benefited much from the subsidy which was targeted at reducing national fuel pump prices. A subsidy, is ideally intended to be short term, meant to save a specific period and is not supposed to be in place in perpetuity.

You may wish to note that the key direct consumers of fuel who are the mining industries and urban dwellers that are able to own vehicles have benefited the most from this measure. Current statistics indicate that more than 50% of the subsidized fuel is being consumed by Lusaka, Central and Copperbelt Provinces, mainly by

the mines, when most of **the** intended beneficiaries, “the poor” live in rural areas.

The Uniform Petroleum Pricing Programme

Government has recognised the need to ensure that the poor in the rural areas are not adversely affected by the removal of subsidies. Accordingly, Government has retained the subsidy on fuel that allows the people in the rural areas to pay for the product at the same price as that obtaining in the urban areas. You may wish to note that previously, the further away one moved from the main fuel distribution point in Ndola to other remote places, the more expensive Fuel became. However, through the targeted subsidy mechanism under the Uniform Petroleum Pricing Programme, the price of fuel in the country including rural areas remains the same.

Mr. Speaker,

This August House may further wish to know that the Government has been paying huge sums of money on subsidies and this amount has been increasing on a yearly basis. -As a demonstration, let me

give you some figures highlighting what has been paid over the last five years:

FINANCIAL YEAR	SUBSIDY SPENT IN KWACHA REBASED
2009	179,009,688.68
2010	90,000,000.00
2011	247,600,000.00
2012	754,000,000.00
2013	1,195,000,000.00
TOTAL	2 465 609 688.68

The payment of the subsidy on fuel is not only a drain on Government resources, but diverts funds from key capital and social development projects such as education, health and road infrastructure, which have a direct benefit on the poor.

As a result of maintaining the subsidy, Government's capacity to collect the Strategic Reserve Fund (SRF) was compromised. This resulted in the lack of progress in the construction of petroleum

infrastructure. As Members of the House are aware, the Government has a Programme to construct provincial fuel storage Depots as well as rehabilitation of the National storage facilities in Ndola and the Bitumen Unit at the INDENI Refinery.

Under the first phase of the programme, the Lusaka and Mpika storage depots as well as the rehabilitation of the Ndola Fuel Terminal are almost complete, whilst for the Solwezi project, the contractor will soon mobilize to site. The contractor will also mobilise to site in Mongu, during the year, once the 3 km access road has been worked on to allow heavy trucks carrying materials to reach the site.

Under the second phase of the programme, fuel depots will be constructed in the remaining provinces, namely Central, Eastern, Luapula, Northern and Southern Provinces. Construction of fuel depots will reduce reliance on the Ndola Fuel Terminal and improve efficiency in the distribution of fuel. In the long run, the programme is expected to reduce logistical costs in the distribution of fuel and hence lead to lower fuel prices.

Therefore, the removal of subsidy on fuel will ensure that the Strategic Reserves Fund has adequate resources to accelerate the completion of the petroleum infrastructure development programme.

Mr. Speaker,

In order to cushion the level of increase in the fuel price after the removal of the subsidy, the Government removed the 5% import duty that was charged on petroleum feedstock. In addition to the foregoing, the Government has commenced the process of reflecting taxes on fuel in absolute values as opposed to the current system where taxes are reflected in percentage terms. This is also a way of mitigating the compounding effects of the increase in the price of fuel. This measure however requires an amendment to the law and will therefore be presented to this August House for consideration

Mr. Speaker,

Members of the House may further wish to know that Cabinet has since decided that there will now be periodic fuel price reviews in line with economic fundamentals. Given the current economic conditions, the Patriotic Front Government is committed to improve the welfare of the Zambian worker as well as the most vulnerable and poor in our society. In order to achieve our desired goal, it is unavoidable for the Government to implement some austerity measures which in the beginning are very painful indeed but in the long run will yield positive results for the good of the whole country.

Mr. Speaker

Let us not forget the saying that the hour before dawn is the darkest. I therefore implore all Zambians to be patient and support this measure which is aimed at contributing to accelerated development of our country as well as improving the welfare of our people in a much more sustainable manner.

I thank you.