



REPUBLIC OF ZAMBIA

MINISTRY OF ENERGY AND WATER DEVELOPMENT

**MINISTERIAL STATEMENT ON THE FUEL SITUATION IN
THE COUNTRY**

BY

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CURRENT FUEL SITUATION

Mr. Speaker,

I wish to thank you for giving me this opportunity to present the fuel Increment Status of the Country.

The House and the nation at large may wish to recall that in 2014, Government made a policy decision to remove fuel subsidies as a way to migrate to cost reflective pricing of energy services and products. This decision implied that periodic price adjustments are essential to ensure that consumers pay cost reflective prices as this in turn promotes the sustainable supply of petroleum products in the country.

However, since 2014, we have had only four fuel price adjustments. Therefore, the Government has had to subsidize the fuel being imported. In 2016, for instance, Government paid US\$89 million in the first quarter, US\$72 million in the second quarter and US\$57 million in the third quarter. In total, over US\$200 million has been paid towards fuel subsidies. This became a burden and unsustainable on the Treasury.

Mr Speaker

In Zambia, the domestic prices of fuel are mainly determined by two key fundamentals i.e. the international oil prices and the exchange rate of the Zambian Kwacha to the United States Dollar. The pump prices of fuel were last reviewed in July 2015 when the exchange rate was K7.68 per US dollar. From July 2015 to date, while the international oil prices have remained fairly stable, the exchange rate has been volatile and has depreciated by over 30%, with the Zambian Kwacha now trading at about K10 against the United States Dollar.

Mr. Speaker

The Energy Regulation Board (ERB) uses the Cost-Plus Model for determining fuel prices. The Cost-Plus Model works on the principle that the final price of petroleum products should cover all the costs in the supply chain, for both the petroleum feedstock and the imported petroleum products. Each and every petroleum feedstock cargo received is reviewed and adjustments are effected if the change in the computed prices exceeds the set 2.5% trigger band, in the event that the computed price is less than the 2.5% trigger band, then the prevailing fuel prices are maintained without effecting any adjustment. Therefore, the fuel increment of 14th October, 2016 is in line with the policy decision of

2014. The Energy Regulation Board increased the pump price of fuel as follows:

| Product | Old Pump Price (K) | New Pump Price (K) | Differential (K) | Differential (%) |
|--------------------|--------------------|--------------------|------------------|------------------|
| Petrol | 9.87 | 13.70 | 3.83 | 38.8 |
| Diesel | 8.59 | 11.40 | 2.81 | 32.7 |
| Low Sulphur Diesel | 10.88 | 13.69 | 2.81 | 25.8 |
| Kerosene | 6.12 | 8.03 | 1.91 | 31.2 |

The increases in the price of fuel in effect means that we now have no subsidy on fuel and any future upward or downward adjustments will solely be determined by market fundamentals, mainly changes in the international price of fuel as well as the exchange rate of the Kwacha to the United States Dollar.

In order to avoid price shocks, fuel prices will be reviewed periodically in line with the supply of feedstock cargoes. Since we receive a new shipment of crude feedstock every 45 days, price reviews will have to accommodate this time interval.

Mr. Speaker,

Indeni Annual Maintenance Shutdown

As you are aware, every year Indeni Petroleum Refinery undergoes a planned maintenance shutdown. The shutdown is aimed to maintain and improve Refinery safety, reliability, regulatory compliance and ensure sustained product availability on the market. This year the shutdown will include the following works;

- Upgrade of the furnace- for purposes of energy conservation;
- Replacement of top segments of the Boilers' stack;
- Regeneration of the Reformer Catalyst and replacement of the Hydrotreater Catalyst; and
- General maintenance of plant units (cleaning, inspection and testing of production units)

The planned shutdown duration is from 19th October to 30th November 2016. However, depending on how the maintenance program proceeds, some units of the refinery may start operation earlier than the target date of 30th November, 2016.

As Hon. Members may be aware, my Ministry imports diesel and petrol to supplement the production of the Indeni refinery. Therefore, in preparation for the shutdown, my Ministry has put in place mechanisms

to ensure that the supply of fuel in the country will not in any way be disrupted as a consequence of the refinery shutdown. To this effect, we have and continue to build sufficient fuel stocks to last the period of the refinery shutdown and beyond.

Mr. Speaker,

Our Country's consumption of petroleum products still stands at about 36 million liters of petrol, 66 million liters of diesel and 1.5 million litres of kerosene per month. With regard to petrol and diesel, 50% is produced at the refinery and 50% is imported. As at 19th October, 2016, the country had 34 stock days of petrol, 32 stock days of diesel, 66 stock days of kerosene and 47 stock days for aviation fuel (Jet AI). During the shutdown period, Oil Marketing Companies who sell Jet AI will import the product to supplement the available stock.

In addition, for Liquefied Petroleum Gas (LPG), Indeni refinery has not been able to produce LPG to cater for the Zambia demand, therefore, distributors who sell LPG, have been and will continue to import for their consumers.

Government through my Ministry wishes to appeal to all consumers to continue with their normal business without any anxiety or panic as the country has enough fuel for the period of the shutdown and beyond.

Mr. Speaker,

As a Government, we remain fully committed to not only ensuring stable supply of fuel to the country but also that the fuel is available to the economy at the least cost possible as determined by the prevailing fuel delivery system. This includes collaboration with oil producing countries such as Saudi Arabia, through bilateral agreements.

I thank you Sir.