

MINISTERIAL STATEMENT
ON
ENERGY SITUATION IN ZAMBIA
BY
THE MINISTER OF ENERGY, MR NKHUWA, MP

Mr Speaker, I thank you for giving me this opportunity to update the nation through this august House on the current situation in the energy sector. My address will mainly concentrate on the adjustment of fuel prices due to the depreciation of the kwacha, complaints about contaminated fuel in the Southern Province and the current load management/deficit in the country.

Sir, as you may be aware, the Government, through the Energy Regulation Board (ERB), reviews wholesale and pump prices for petroleum products each time petroleum feedstock and finished petroleum products are imported into the country. This is to ensure that the procurement of petroleum products remains self-financing and guarantee security of supply. The ERB uses the Cost-plus Pricing Model (CPM) to review fuel prices.

Mr Speaker, fuel prices are largely determined by two factors; international oil prices and the exchange rate of the Zambian Kwacha against the United States (US) Dollar. Further, changes in other associated costs, such as fees, taxes or charges such as pumping and processing fees may also cause a change in fuel prices. It is worth noting that the ERB only effects a fuel price change if the proposed change in the wholesale price is on average greater than the set threshold of 2.5 per cent.

Sir, the last fuel price review was conducted on 28th February, 2019, in which fuel prices were adjusted downwards. Since the last price review, the Government has imported sufficient petroleum products that will guarantee national supplies for the next three months. Specifically, the Government procured four petroleum feedstock cargoes, that is, in February, March, April and June, 2019. This back-to-back procurement has eased the pressure on price reviews for the purpose of subsequent importation of petroleum feedstock.

The House may wish to note that an internal analysis of the profitability of both the crude feedstock and the finished petroleum products was conducted early this year. The report revealed that the exchange rate volatility and overall depreciation of the kwacha largely affects the profitability and self-financing mechanism of the petroleum sub-sector in Zambia.

Mr Speaker, without doubt, the fundamentals that effect pricing have deteriorated since the last price adjustment. This is sufficient to warrant an upward price adjustment. Specifically, since the last downward adjustment was in February, 2019, the price of Murban Crude which is mainly imported by the Government, increased by 10.05 per cent from the average of US\$65.74 per barrel in February, 2019, to an average of US\$72.35 per barrel in May, 2019. Meanwhile, the kwacha also depreciated against the US dollar by about 9.71 per cent from the February average rate of K11.94 per US\$1 to the mid-year level of around K13.10 per US\$1.

Sir, principally, it is not advisable to make price reviews under such extreme volatility and unpredictable behavior of the kwacha. It is, therefore, advisable to undertake price reviews in cases where the outturn of the two fundamentals, international oil prices and exchange rate, are less volatile and predictable. In view of the above, I am pleased to inform the House that the Ministry of Energy this year invited proposals from several local-based banks to provide foreign exchange hedging services. The ministry aims to implement a foreign currency hedging programme that will help relieve citizens of the country from immediate price change shocks, as well as mitigate the losses arising from the depreciation of the kwacha. The ministry is set to pilot the programme following the review of the received proposals later this year.

Mr Speaker, recently, there have been reports of alleged petrol contamination in Livingstone and Kalomo following media reports received on 1st July, 2019. Following a receipt of complaints, samples were collected on Sunday, 30th June, 2019, from the affected petrol tank in Kalomo and submitted to Indeni Laboratory in Ndola for analysis on Monday, 1st July, 2019. The results indicated that the product was most likely to have been cross contaminated with diesel during offloading.

In light of the aforementioned, Kobil Zambia Limited, which is licensed to operate the said site, was directed to clean the affected tank before replenishing it with new stock. The new stock would also be sampled and analysed for certification prior to the commencement of sales.

Sir, the ERB has been engaging civic leaders, officials from the Office of the President, officials from the council and other stakeholders in the district to communicate the results of samples that were collected earlier. This is because there was a similar complaint earlier recorded whose sample results were pending. Therefore, besides addressing the present challenge, the engagements were to help chart the way forward taking into account that the said site was the only legitimate source of fuel for the district.

Mr Speaker, similar complaints of suspected product contamination were subsequently received from Livingstone. Consequent to the recent receipt of complaints, the ERB inspectors rushed to Livingstone and established that complaints were received at three sites, namely; Puma Energy Zambia Plc, Total Zambia Limited and Engen Petroleum Zambia Limited which were affected. In order to establish the source of the possible contamination, sampling of all products contained in the tanks at all the sites in Livingstone was completed on Tuesday, 2nd July, 2019.

Sir, all petrol samples collected from the Tanzania Zambia (TAZAMA), Puma, Total and Engen Depots in Lusaka were found compliant to quality specifications. On the other hand, the petrol sample collected from the Kobil Lusaka Depot was not compliant to the quality specifications. All the samples collected from the tanks at the affected filling stations in Livingstone and Kalomo service stations failed the laboratory test on account of the high boiling point which is an indication of contamination with heavier constituents. It is important to note that the contamination of fuel in the supply chain can occur at the following points:

- (a) storage and handling at fuel depots;