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## **Fuel price decrease December 2018 – An early Christmas present**

The Ministry of Mines and Energy (MME) announced on 30 November 2018 a fuel price decrease of NAD1.00 per litre for petrol and NAD0.40 per litre for diesel countrywide with effect of 5 December 2018 midnight.

A brief analysis:

- Increased global oil supply mainly by OPEC and shale oil producers in the USA coupled with a slowdown of the global economy that reduces the demand for oil – and other commodities – are the main factors behind the drop in global oil prices. The average Europe Brent oil price dropped by 18.4% in November compared to October to USD66.16 per barrel. Daily oil prices declined even further to below USD60 per barrel at the end of November 2018. However, prices remain 5.5% higher than in November 2017.
- Furthermore, the Namibia dollar appreciated on average by 2.8% in November to NAD14.09 per US dollar compared to the monthly average of NAD14.50 per USD in October 2018. Both factors contributed to lower landing costs of fuel in Namibia.
- This resulted in substantial over-recoveries (fuel prices at pump stations were higher than the cost of fuel) of 140.196 Namibia cents per litre for petrol 95 Octane, 60.465 Namibia cents per litre for diesel 500ppm and 59.589 Namibia cents per litre for diesel 50ppm. It was the first time since seven months that the National Energy Fund accumulated over-recoveries. Part of the over-recovery was passed on to the motorists, while the ministry uses part of the over-recovery to recover the NEF subsidy over the past months.
- Pump prices have decreased for the first time since September 2017 for petrol and since July 2017 for diesel. Petrol prices remain, however, 11.2% higher than at the beginning of 2018 and diesel prices 20.2% higher.

The decrease in fuel prices brings much needed relief to Namibian producers and consumers that have to cope with a slow economic recovery and increasing inflation. It will ease the burden on the consumer during the upcoming festive and holiday season. The drop in fuel prices is more generous than the previous under-recoveries would have suggested.

However, the current drop in oil prices highlights once more the volatility in the global oil market that is influenced not only by the performance of the global economy, but also by geopolitical factors such as the tensions in the middle east. The current declining oil prices are mainly caused by a global slowdown of the economy due to continuing uncertainties surrounding the global trade system, which is not good news for Namibia. Slower global economic growth results in lower demand for basic commodities and hence lower prices, which hits commodity exporters such as Namibia. Furthermore, lower oil prices will slow down the recovery of the Angolan economy and subsequently the Angolan demand for Namibian goods and services.

Furthermore, lower fuel prices should not result in complacency on the part of consumers, producers and policy makers to embark on more fuel-efficient transport and production equipment and, moreover, move to electric vehicles and equipment. Such a shift will not only reduce Namibia's dependency on oil imports, but support our Growth at Home Strategy by harnessing our own natural resources such as solar, wind, biomass and wave power to generate electricity. Policy makers need to take the initiative to design a joint strategy to promote the use (and production) of electric vehicles not only in Namibia, but in the southern African region. Namibia and the southern African region at large are rich in lithium and cobalt, the main inputs into the production of lithium-ion batteries that power electric vehicles. Instead of exporting the minerals as raw materials, policy makers need to design a strategy to add value to the minerals and produce the batteries in the region.