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Fuel price increase – Motorists spared the full impact

The Ministry of Mines and Energy announced a fuel price increase of NAD0,25 per litre for petrol and diesel country-wide with effect of 1 August 2018. The fuel price increase is caused by the increase in the fuel tax by the same amount as announced by the Minister of Finance in his budget statement on 7 March 2018. The fuel tax increase became effective on 4 July 2018, but was only passed on to the consumer with the current pump price increase.

It is the third consecutive fuel price increase for petrol and the fourth for diesel. Prices were kept stable for six and five months between December 2017 and May and April 2018 for the two products respectively. Petrol prices for Windhoek have increased by 7.9% and diesel (50ppm) prices by 10.3% since the beginning of the year. Compared to August 2017, petrol and diesel prices are 14.6% and 24.7% higher. They also exceed the previous peaks in June 2014, when petrol cost NAD12.51 per litre and diesel NAD13.15 per litre. In between, prices dropped as low as NAD9.81 per litre for petrol in March 2015 and NAD9.80 per litre for diesel in May 2016. Petrol cost now NAD12.97 per litre and diesel NAD13.36 per litre in Windhoek. Despite the recent increases in fuel prices, prices remain below prices in neighbouring countries such as South Africa, Zambia and Zimbabwe.

The pump price is to a large extent determined by the international oil price including transportation, insurance and unloading at Walvis Bay. These costs combined account for about 61% of the pump price in Walvis Bay. Additional charges and fees add to the total pump price. The road user charge adds another 10%, the NEF fuel levy like the dealers' margin about 8%, industry margin 7%, fuel tax about 5% and MVA levy about 4%. Transportation costs that were adjusted last month add to the pump prices at other destinations.

Oil prices for Europe Brent actually declined on a monthly average from USD76.98 per barrel, to USD74.40 (June) and USD74.26 in July. However, caused by the depreciation of the Namibia dollar versus the US dollar, average oil prices per barrel increased from NAD964,54 per barrel to NAD989.47 and NAD997.23 over the same period. This would have actually resulted in much higher pump prices, were these increases not absorbed by the National Energy Fund.

National Energy Fund

The National Energy Fund was established by an Act of Parliament in 1990, which has been amended regularly over the years. The fund receives revenue from levies charged on energy products such as petroleum products (NEF Fuel Levy), electricity etc. Another source of income are over-recoveries, meaning the actual costs of fuel are lower than the pump price. On the other hand, the Fund re-funds dealers for under-recoveries, when actual costs exceed the pump price, and hence the Fund subsidises fuel prices

in order to reduce the impact on motorists and producers. Based on the Social Accounting Matrix 2013 (SAM), the main beneficiaries from the subsidisation of fuel prices are rural and urban households in the highest 20% consumption bracket, since they spend considerably more as a share of their total consumption on fuel than households in the low and middle consumption bracket.

The last time the National Energy Fund experienced over-recoveries was in April 2018. Since then, under-recoveries were experienced that were in part recovered through price increases in June, but were fully subsidised in July and now in August. Subsidies amounting to some NAD60 million were paid out for the months of May and June. The continuous subsidisation indicates that the NEF is still well funded. However, based on a consolidated volume of imported petroleum products of about 99 million litre per month and under-recoveries ranging from NAD0.59532 per litre to NAD0.69626 per litre on 25 July 2018 the next pay-out is likely to be much higher than the previous one.

The way forward

Kerosene is excluded from the petroleum levy. Travellers using public transport or their own car to go to Walvis Bay, Ondangwa, Cape Town or elsewhere contribute to the National Energy Fund, while travellers flying to the same destination do not. The exclusion of kerosene from the fuel levy amounts therefore to an indirect subsidisation of air travelling. Since air transport is mainly used by the better off, government could consider treating kerosene like other controlled petroleum products and charge a fuel levy, which would contribute to the National Energy Fund.

Prices in a market economy indicate the degree of scarcity of goods and services. Price fluctuations are therefore expected to result in a change of consumption behaviour. Higher prices for fuel if lasting longer periods of time should therefore lead to the use of more fuel-efficient equipment, more efficient use of transport equipment (car-pooling, better trip planning), a shift to non-motorised modes of transport for shorter distances (walking, cycling) and eventually the move to other forms of 'fuel' than oil products. Electric vehicles and vehicles running on hydrogen are on the rise globally. Some countries have already set deadlines for the phasing out of combustion engines by the year 2040. Namibia has the chance to be the first major mover on the African continent to support a major shift to e-vehicles including e-scooter, e-bikes etc. that are well suited for relatively short daily trips in urban areas. They can be re-charged during working hours, lunch breaks or at home during night. Namibia is endowed with renewable energy sources to recharge the batteries. Since the country is also endowed with lithium, it should be explored whether it is not viable to produce lithium-ion batteries that power e-vehicles.

The continuous subsidisation of fuel could delay necessary adjustments in transport behaviour. Government could therefore consider to use the NEF to fund investment necessary to support the shift to e-vehicles and or hydrogen, such as recharging stations at public places. Furthermore, since the Act stipulates that the Fund can be used for research, more resources should be made available for research into more sustainable forms of transport and transport equipment, such as the e-taxi developed by the Namibia University of Science and Technology. Hence, rising fuel prices provide the opportunity to chart the way forward for an environmentally-friendly and sustainable transport sector. Not least, this will support Namibia's efforts to achieve the Agenda 2030 – the Sustainable Development Goals, in particular SDG 13 that aims at combatting climate change.