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Fuel price increase November 2018 – The upward trend continues

The Ministry of Mines and Energy (MME) announced on 5 November 2018 a fuel price increase of NAD0.50 per litre for petrol and NAD0.70 per litre for diesel countrywide with effect of 7 November 2018 midnight.

According to the MME statement, the price of refined petrol and of refined diesel remained stable compared to September at USD86 per barrel and USD95 per barrel. However, the Namibia dollar weakened from NAD14.40 in September to NAD 14.50 vis-à-vis the US dollar causing the cost of fuel in NAD to rise. In addition, the industry margin will be increased by 2 Namibia cents per litre.

A brief analysis:

- Pump prices for diesel have been increased since May 2018 and for petrol since June 2018. Higher oil prices and a weaker Namibia dollar have been the main reasons, but adjustments in the transport costs from Walvis Bay to inland destinations as well as the increase in the fuel tax added to price rises in previous months.
- Petrol prices in Windhoek will be 19.6% and diesel prices 23.5% higher than at the beginning of the year and 24.7% and 28.9% higher than in November 2017.
- However, the pump price increases cover only 78% of under-recoveries per litre for petrol and 61% of under-recoveries per litre for 50ppm diesel. Under-recoveries occur when the actual costs of fuel landed in Walvis Bay plus the various additional costs such as dealer margin, industry margin, fuel levy and fuel tax remain above the pump price at service stations. Under-recoveries are absorbed by the National Energy Fund (NEF). The NEF has subsidised fuel prices since May 2018, because the first under-recoveries were experienced in April. The NEF spent a total of NAD470 million so far to cushion the higher cost of fuel. The under-recoveries peaked in September at NAD1.32 per litre for petrol and NAD1.45 per litre for diesel. The drop in under-recoveries in October indicate that motorists carried a stronger burden of the fuel cost increases.
- The industry margin increased from NAD0.91 to NAD0.93 per litre accounting for some 6.7% of the total pump price at Walvis Bay.
- Average monthly Europe Brent oil prices – based on daily spot market prices published by the Energy Information Administration – increased to USD81.58 per barrel in October, the highest level since October 2014 (USD87.43). The price increased by 41.9% compared to October 2017. Using the average exchange rate of the NAD versus the USD for October 2018, the price of oil in NAD increased by 50.4% to NAD1,182.86 per barrel, which is the highest price since July 2014.

The re-imposition of sanctions against Iran by the US Government beginning of November 2018 that target the financial, shipping and oil sectors are likely to exert further pressure on oil prices, since other OPEC

member states might not be in a position to cover the shortfall. Furthermore, the winter in the Northern hemisphere will lead to rising oil demand for heating purposes. On the other hand, the Namibia dollar is currently stabilising against other major currencies, which could ease the price pressure.

The rising fuel prices will lead to higher transportation costs and over time to price adjustments for consumer products. The inflation rate will therefore continue to rise. On the other hand, local producers competing with imported products could gain a competitive edge due to shorter transport distances. Therefore, sourcing inputs and final products locally could help containing the upward price pressure .