

PROPOSED PRICING FORMULA FOR COMPUTING INDICATIVE PRICES AND ITEMS THAT CONSTITUTE PETROLEUM PRICES BUILDUP

Although the petroleum downstream sub sector in Tanzania is liberalized, parameters that are taken into account while computing the final price to the consumer are almost the same. Competition among market oil companies is expected to be on levels of some of the parameters which are negotiable depending on their trading volumes, frequency of importation, company policies, etc.

The following are the parameters for the prices build up for petroleum products in Tanzania.

(a) FOB (Free on Board) Price

This is the major determinant of the end user price, it depends on the World Market quotation on the invoice/purchase date, depends also on the applicable market basis depending on the geographical location of the buyer. Most of the purchases to Tanzania are based on the Mediterranean and Arabian Gulf markets. In computing indicative prices EWURA takes 30 days average Platt's prices for the past month and allows 15 days for ocean delivery to Dar es Salaam. For example in computing the November prices, FOB averages for 15th September to 15 October are assumed. The same approach is proposed for use in determination of petroleum products FOB prices.

(b) Freight and Seller Premium

This item comprises of sea freight from the port of loading to destination (Dar es Salaam/Mtwara/Tanga), plus the supplier's expenses and profit margin, commonly known as his "premium". These parameters are negotiable depending on factors such as duration of the supply contract, volumes involved, mode of payment, and availability of oil tankers. Under this parameter, EWURA has taken averages for companies that have submitted their pricing template. The same

approach is proposed for use in determination of Freight and Seller Premium of petroleum products.

(c) Exchange Rate

Petroleum products are internationally priced in US\$ as a standard currency used in the petroleum industry. When our currency gets weaker against the US Dollar, it means that fuel prices will be higher. The reverse happens when our currency gains more strength. Currently, estimation of the exchange rate that is included in the pricing formula is based on thirty days average of the selling rates as quoted by the Bank of Tanzania, for same dates as applied in the computation of FOB. It is proposed that the same computation basis continue to be applied.

(d) Insurance

Covers for insurance of petroleum products while in transit from the loading port to offloading port. This is also negotiable, currently; it is on an average of 0.1% of the C&F cost. EWURA proposes that the same rate be used for determination of Insurance costs in the pricing formula.

(e) Wharfage

Wharfage is payable to Tanzania Ports Authority (TPA) and it is normally fixed over a period of time and non negotiable. Currently, companies are required to pay \$1.6% of the C&F cost plus 20% VAT.

(f) Destination Inspection

Destination inspection of 1.2% of the FOB is payable through Tanzania Revenue Authority to COTECNA. These payments are made under a contract which, according to TRA will expire at the end of the year 2009. Some stakeholders are of the opinion that this charge should be dropped because TRA does not do destination inspection for petroleum; companies do so under individual arrangements.

(g) TIPER Manifold Fees

Importers through the Dar es Salaam port do discharge petroleum products through the manifold at the KOJ which is owned by TIPER. They are required to pay a fee of \$0.15/MT to cover for maintenance and running of the facility.

(h) TBS Quality Certification

Prior to offloading of any petroleum product, Tanzania Bureau of Standards (TBS) is required to carry out quality certification for every consignment and to control the quality of products in the distribution network in the country. A fee of 0.2% of the C&F cost is payable, covers for guarantee costs as well as random market surveillance. These fees are charged pursuant to Regulation 12(1) of GN No. 672 of 25.12.1998, made under section 31 of the Standards Act, 1975.

(i) Transit Loss

Loaded and paid for, petroleum products quantity does not reach the discharge port in full. Because of evaporation, temperature differences and minor leakages, transit losses or gains are always observed. The industry practice provides for an average loss of 0.5% for diesel and kerosene, and 1.0% for petrol as part of the cost while estimating the end user price.

(j) Demurrage Costs

Normally, vessel owners do provide for a certain number of days/hours, depending on the loaded quantity, for a vessel to offload products at the port of destination. In case this allowed time is exceeded, importers are required to pay demurrage costs to the ship owner. In cases where proper import planning is implemented and port authorities are held responsible for losses occasioned by their inability to perform, a burden of demurrage cost to the end user can be avoided. In this regard, it is proposed that demurrage costs should not be transferred to consumers instead be accommodated as part of importers' operation losses or paid by the institution that caused the delay.

(k) SUMATRA Charges

This is a shipping fee payable to SUMATRA, charged as per GN No. 214 of 2000, at a rate of US \$0.25/MT.

(l) EWURA Levy

In accordance to best practice in financing regulatory functions, and as per Section 43 (2) of the EWURA Act, EWURA is authorized to charge up to 1.0% of the gross income of regulated suppliers to cover for costs related to its regulatory roles. EWURA is currently charging levies in fixed amounts as indicated in the formula, and the levy is charged only for petrol, kerosene and diesel. The charged amount, taking prices for year 2007, is equivalent to an average of 0.45% of gross revenue of the petroleum products sold in Tanzania mainland. It is proposed that EWURA should continue charging a levy in the same proportions.

(m) Government Taxes

Government taxes are non negotiable, they are normally reviewed periodically, depending on the Government decision.

(n) Company Margin and Overhead Recovery

This item is expected to cover for companies' running costs, return on investment, profits and any other statutory costs associated with the petroleum business in Tanzania. Before the market was liberalized the oil marketing margin was TZS 30.95 per litre for the same. Under this parameter, EWURA has taken averages for companies that have submitted their pricing template. The same approach is proposed to be used until such a time when a more elaborate study will be conducted to determine a model for calculating margins.

(o) Dealers Margin

Similar to OMC margins, distributors are also expected get a return for their investment costs, running costs and all other costs related to their petroleum

business operations. Before liberalization of the petroleum business in Tanzania, dealers were being paid TZS 20.00 per litre. Under this parameter, EWURA has taken averages for companies that have submitted their pricing template. The same approach is proposed to be used until such a time when a more elaborate study will be conducted to determine a model for calculating margins

(p) Financing Cost

It is assumed that financing costs are part of the company margin and should not be included differently in the formula.

(q) Delivery Charges

Transportation costs for petroleum products from the receiving depots to the end user are recovered from the end user price. Transport charges to regional centres are proposed by SUMATRA, figures that are used in the template are averages as charged by major transporters of petroleum products, and they are used for demonstration purpose.

(r) Conversion Factor

Petroleum products prices are normally quoted in US\$/MT, conversion of the quantity in volume is usually based on actual conversion factors that depend on temperature and density of the product. It is an acceptable practice that, average conversion factors at 20 degrees Centigrade be used in cases where actual factors cannot be obtained. Conversion factors that have all along been used in Tanzania are for: Super =1,359 litres per metric ton, Kerosene = 1,272 litre per metric ton and Diesel = 1,200 litres per metric ton. It is proposed that the same basis should continue to be applied for purpose of calculating petroleum product prices.

**PROPOSED FORMULA FOR COMPUTING PETROLEUM PRODUCTS
INDICATIVE PRICES**

Average Platt's Average 01 October 2008 - 31 October 2008			EXCHANGE RATE =		1,185.43
CONVERSION FACTORS			0.736	0.833	0.786
DESCRIPTION		UNIT	MSP	GO	IK
			PRICE	PRICE	PRICE
	Average Platt's FOB	USD/MT	627.57	675.15	593.10
Plus	Freight and Premium	USD/MT	83.32	83.30	75.92
Plus	Insurance (0.1% C&F)	USD/MT	0.71	0.76	0.67
Sub Total	COST CIF DAR	USD/MT	711.60	759.20	669.69
LOCAL COSTS PAYABLE TO OTHER AUTHORITIES					
	Wharfage 1.6 % of CIF + 20% VAT	USD/MT	13.66	14.58	12.86
	Destination inspection 1.2% of FOB	USD/MT	7.53	8.10	7.12
	SUMATRA USD 0.25 per MT	USD/MT	0.25	0.25	0.25
	TBS 0.20% of C&F	USD/MT	1.42	1.52	1.34
	TBS Application and Testing Fees *	USD/MT	0.38	0.38	0.38
	TIPER fees USD 0.15 per MT	USD/MT	0.15	0.15	0.15
	Transit loss (0.5% GO, IK & 1% MSP) CIF	USD/MT	7.12	3.80	3.35
	Demurrage (Estimate)	USD/MT	-	-	-
	Finance Cost (1.5% CIF)	USD/MT	-	-	-
Sub Total	LOCAL COSTS (LC)	USD/MT	30.51	28.77	25.44
	Landed cost - Dar Es Salaam (CIF + LC)	USD/MT	742.10	787.97	695.13
	Landed cost Tzs per Litre	Tzs/Ltr	647.32	778.41	647.82
GOVERNMENT TAXES					
	Fuel Levy	Tzs/Ltr	200.00	200.00	-
	Excise duty	Tzs/Ltr	339.00	314.00	52.00
Sub Total	TOTAL GOVERNMENT TAXES	Tzs/Ltr	539.00	514.00	52.00
Plus	EWURA LEVY	Tzs/Ltr	6.10	6.80	7.10
Plus	OMC's & Dealers Margins	Tzs/Ltr		107.90	

Average Platt's Average 01 October 2008 - 31 October 2008			EXCHANGE RATE =		1,185.43
CONVERSION FACTORS			0.736	0.833	0.786
DESCRIPTION		UNIT	MSP	GO	IK
			PRICE	PRICE	PRICE
			108.32		98.70
			-	-	-
Plus	Transport Charges (Local)	Tzs/Ltr	10.00	10.00	10.00
Price	Average DSM Pump Prices	Tzs/Ltr	1,310.74	1,417.11	815.62

Note: The different elements of the pricing formula vary with changes in the World market, exchange rate and freight which changes on every cargo. The figures that are included in the above formula are as were in November 2008 and are used for demonstration purposes.